



Apple Operations International Limited

Directors' Report and Consolidated Financial Statements
Year Ended 29 September 2018

Apple Operations International Limited
DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
Year Ended 29 September 2018

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Apple Operations International Limited

DIRECTORS' REPORT

The directors present their report and audited consolidated financial statements of Apple Operations International Limited, the ("Company") and its wholly-owned subsidiaries (collectively the "Group") for the financial year ended 29 September 2018 ("2018"). The consolidated financial statements are presented in U.S. dollars ("\$\$") and rounded to the nearest million (unless otherwise stated).

The directors have elected to prepare the consolidated financial statements of the Group in accordance with International Financial Reporting Standards and their interpretations approved by the International Accounting Standards Board as adopted by the European Union ("IFRS") and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. The Company financial statements are prepared in accordance with the Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council and the Companies Act 2014.

The Company's ultimate and immediate parent is Apple Inc. ("Ultimate Parent", "Apple" or "Apple Inc."), a company incorporated in California, United States of America.

Apple Operations International Limited was an unlimited liability company for the financial year ended 29 September 2018. On 19 November 2018, the Company re-registered as a private company limited by shares pursuant to the Companies Act 2014. The Company is incorporated in Ireland with a registration number of 76341. The registered office is Hollyhill Industrial Estate, Hollyhill, Co. Cork, Ireland.

Principal Activities, Business Review and Future Events

The Group develops, manufactures and markets mobile communication and media devices and personal computers, and sells a variety of related software, services, accessories and third-party digital content and applications. The Group's products and services include iPhone[®], Mac[®], iPad[®], Apple Watch[®], AirPods[®], Apple TV[®], HomePod[™], a portfolio of consumer and professional software applications, iOS, macOS[®], watchOS[®] and tvOS[®] operating systems, iCloud[®], Apple Pay[™] and a variety of other accessory, service and support offerings. The Group sells and delivers digital content and applications through the iTunes Store[®], App Store[®], Mac App Store, TV App Store, Book Store and Apple Music[®] (collectively "Digital Content and Services"). The Group sells its products through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and resellers. In addition, the Group sells a variety of third-party Apple-compatible products, including application software and various accessories through its retail and online stores. The Group sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

The Group recorded net sales in 2018 of \$155.8 billion (2017: \$137.8 billion), an increase of 13.1%. Gross margin in 2018 was 37.2% (2017: 37.5%). The Group incurred research and development costs in 2018 of \$7.2 billion (2017: \$5.9 billion). Net income in 2018 was \$40.0 billion (2017: \$37.3 billion). Average full time equivalent employees for 2018 were 43,325 (2017: 41,200). Net assets for 2018 were \$298.0 billion (2017: \$271.3 billion), a decrease of \$33.3 billion.

The Company's principal activity is to serve as a holding company for the management of certain Apple subsidiary companies and other investments. The profit of the Company in 2018 was \$14.0 billion (2017: \$37.8 billion).

The directors do not anticipate any significant change in activities for the Group and Company in the foreseeable future.

Income Taxes

The corporate income taxes reported in the consolidated statements of operations, balance sheets, and statements of cash flows do not include significant US-level corporate taxes borne by Apple Inc., the ultimate parent of the Group.

US-level taxes are paid by Apple Inc. on investment income of the Group at the rate of 24.5% (35.0% for 2017) net of applicable foreign tax credits. In addition, under changes in US tax legislation that took effect in December 2017, Apple Inc. is subject to tax on the previously deferred foreign income (at a rate of 15.6% on cash and certain other net assets and 8.0% on the remaining income), net of applicable foreign tax credits. The new legislation also subjects certain current foreign earnings of the Group to a new minimum tax.

Apple Operations International Limited

DIRECTORS' REPORT

Risks and Uncertainties

The business, financial condition and operating results of the Group can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Group's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Group's business, financial condition and operating results.

Global and regional economic conditions could materially adversely affect the Group's business, results of operations, financial condition and growth

The Group has international operations and as a result the Group's operations and performance depend significantly on global and regional economic conditions. Adverse macroeconomic conditions, including inflation, slower growth or recession, new or increased tariffs, changes to fiscal and monetary policy, tighter credit, higher interest rates, high unemployment and currency fluctuations could materially adversely affect demand for the Group's products and services. In addition, consumer confidence and spending could be adversely affected in response to financial market volatility, negative financial news, conditions in the real estate and mortgage markets, declines in income or asset values, changes to fuel and other energy costs, labour and healthcare costs and other economic factors.

In addition to an adverse impact on demand for the Group's products, uncertainty about, or a decline in, global or regional economic conditions could have a significant impact on the Group's suppliers, contract manufacturers, logistics providers, distributors, cellular network carriers and other channel partners. Potential effects include financial instability; inability to obtain credit to finance operations and purchases of the Group's products; and insolvency.

A downturn in the economic environment could also lead to increased credit and collectability risk on the Group's trade receivables; the failure of derivative counterparties and other financial institutions; reduced liquidity; and declines in the fair value of the Group's financial instruments. These and other economic factors could materially adversely affect the Group's business, results of operations, financial condition and growth.

Global markets for the Group's products and services are highly competitive and subject to rapid technological change, and the Group may be unable to compete effectively in these markets

The Group's products and services are offered in highly competitive global markets characterised by aggressive price competition and resulting downward pressure on gross margins, frequent introduction of new products and services, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological advancements by competitors and price sensitivity on the part of consumers and businesses.

The Group's ability to compete successfully depends heavily on its ability to ensure a continuing and timely introduction of innovative new products, services and technologies to the marketplace. The Group together with Apple Inc. believes it is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications and related services. As a result, the Group together with Apple Inc. must make significant investments in research and development. There can be no assurance that these investments will achieve expected returns, and Apple Inc. and the Group may not be able to develop and market new products and services successfully.

The Group together with Apple Inc. currently holds a significant number of patents, trademarks and copyrights and has registered, and applied to register, numerous patents, trademarks and copyrights. In contrast, many of the Group's competitors seek to compete primarily through aggressive pricing and very low cost structures, and emulating the Group's products and infringing on its intellectual property. If the Group and Apple Inc. are unable to continue to develop and sell innovative new products with attractive margins or if competitors infringe on the Group's or Apple Inc.'s intellectual property, the Group's ability to maintain a competitive advantage could be adversely affected.

The Group has a minority market share in the global smartphone, tablet and personal computer markets. The Group faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships. In addition, some of the Group's competitors have broader product lines, lower-priced products and a larger installed base of active devices. Competition has been particularly intense as competitors have aggressively cut prices and lowered product margins. Certain competitors may have the resources, experience or cost structures to provide products at little or no profit or even at a loss.

Apple Operations International Limited

DIRECTORS' REPORT

Risks and Uncertainties (continued)

Global markets for the Group's products and services are highly competitive and subject to rapid technological change, and the Group may be unable to compete effectively in these markets (continued)

Additionally, the Group faces significant competition as competitors attempt to imitate the Group's product features and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. The Group also expects competition to intensify as competitors attempt to imitate the Group's approach to providing components seamlessly within their individual offerings or work collaboratively to offer integrated solutions.

Some of the markets in which the Group competes, including the market for personal computers, have from time to time experienced little to no growth or contracted. In addition, an increasing number of Internet-enabled devices that include software applications and are smaller, simpler and cheaper than traditional personal computers compete with some of the Group's existing products.

The Group's services also face substantial competition, including from companies that have significant resources and experience and have established service offerings with large customer bases. The Group competes with business models that provide content to users for free. The Group also competes with illegitimate means to obtain third-party digital content and applications.

The Group's financial condition and operating results depend substantially on the Group's ability to continually improve its products and services in order to maintain their functional and design advantages. There can be no assurance the Group will be able to continue to provide products and services that compete effectively.

To remain competitive and stimulate customer demand, the Group must successfully manage frequent introductions and transitions of products and services

Due to the highly volatile and competitive nature of the industries in which the Group competes, the Group with Apple Inc. must continually introduce new products, services and technologies, enhance existing products and services, effectively stimulate customer demand for new and upgraded products and services and successfully manage the transition to these new and upgraded products and services. The success of new product and service introductions depends on a number of factors including, but not limited to, timely and successful development, market acceptance, the Group's ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and at expected costs to meet anticipated demand and the risk that new products and services may have quality or other defects or deficiencies. Accordingly, the Group cannot determine in advance the ultimate effect of new product and service introductions and transitions.

The Group depends on the performance of carriers, wholesalers, retailers and other resellers

The Group distributes its products through cellular network carriers, wholesalers, retailers and resellers, many of whom distribute products from competing manufacturers. The Group also sells its products and third-party products in most of its major markets directly to education, enterprise and government customers and consumers and small and mid-sized businesses through its retail and online stores.

Some carriers providing cellular network service for iPhone offer financing, instalment payment plans or subsidies for users' purchases of the device. There is no assurance that such offers will be continued at all or in the same amounts upon renewal of the Group's agreements with these carriers or in agreements the Group enters into with new carriers.

The Group has invested and will continue to invest in programs to enhance reseller sales, including staffing selected resellers' stores with Group employees and contractors, and improving product placement displays. These programs could require a substantial investment while providing no assurance of return or incremental sales. The financial condition of these resellers could weaken, these resellers could stop distributing the Group's products, or uncertainty regarding demand for some or all of the Group's products could cause resellers to reduce their ordering and marketing of the Group's products.

The Group faces substantial inventory and other asset risk in addition to purchase commitment cancellation risk

The Group records a write-down for product and component inventories that have become obsolete or exceed anticipated demand, or for which cost exceeds net realizable value. The Group where required accrues necessary cancellation fee reserves for orders of excess products and components. The Group reviews long-lived assets, including capital assets held at its suppliers' facilities and inventory prepayments, for impairment whenever events or circumstances indicate the assets may not be recoverable. If the Group determines that an impairment has occurred, it records a write-down equal to the amount by which the carrying value of the asset exceeds its fair value.

DIRECTORS' REPORT

Risks and Uncertainties (continued)

The Group faces substantial inventory and other asset risk in addition to purchase commitment cancellation risk (continued)

Although the Group believes its inventory, capital assets, inventory prepayments and other assets and purchase commitments are currently recoverable, no assurance can be given that the Group will not incur write-downs, fees, impairments and other charges given the rapid and unpredictable pace of product obsolescence in the industries in which the Group competes.

The Group orders components for its products and builds inventory in advance of product announcements and shipments. Manufacturing purchase obligations cover the Group's forecasted component and manufacturing requirements, typically for periods up to 150 days. Because the Group's markets are volatile, competitive and subject to rapid technology and price changes, there is a risk the Group will forecast incorrectly and order or produce excess or insufficient amounts of components or products, or not fully utilize firm purchase commitments.

Future operating results depend upon the Group's ability to obtain components in sufficient quantities on commercially reasonable terms

Because the Group currently obtains certain components from single or limited sources, the Group is subject to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations that could materially adversely affect the Group's financial condition and operating results. While the Group has entered into agreements for the supply of many components, there can be no assurance that the Group will be able to extend or renew these agreements on similar terms, or at all. Component suppliers may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting the Group's ability to obtain sufficient quantities of components on commercially reasonable terms. The effects of global or regional economic conditions on the Group's suppliers, could materially adversely affect the Group's business, results of operations, financial condition and growth and could affect the Group's ability to obtain components. Therefore, the Group remains subject to significant risks of supply shortages and price increases that could materially adversely affect its financial condition and operating results.

The Group's new products often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected for any number of reasons, including if suppliers decide to concentrate on the production of common components instead of components customised to meet the Group's requirements. If the Group's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Group, the Group's financial condition and operating results could be materially adversely affected. The Group's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source.

The Group depends on component and product manufacturing and logistical services provided by outsourcing partners

Substantially all of the Group's manufacturing is performed in whole or in part by outsourcing partners located primarily in Asia. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. The Group has also outsourced much of its transportation and logistics management. While these arrangements may lower operating costs, they also reduce the Group's direct control over production and distribution. Such diminished control may have an adverse effect on the quality or quantity of products or services, or the Group's flexibility to respond to changing conditions. Although arrangements with these partners may contain provisions for warranty expense reimbursement, the Group may remain responsible to the consumer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. While the Group relies on its partners to adhere to its supplier code of conduct, material violations of the supplier code of conduct could occur.

The Group relies on single-sourced outsourcing partners in the U.S., Asia and Europe to supply and manufacture many components, and on outsourcing partners primarily located in Asia, for final assembly of substantially all of the Group's hardware products. Any failure of these partners to perform may have a negative impact on the Group's cost or supply of components or finished goods. In addition, manufacturing or logistics in these locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, commercial disputes, military actions, economic, business, labour, environmental, public health or political issues, or international trade disputes.

DIRECTORS' REPORT

Risks and Uncertainties (continued)

The Group depends on component and product manufacturing and logistical services provided by outsourcing partners (continued)

The Group has invested in manufacturing process equipment, much of which is held at certain of its outsourcing partners, and has made prepayments to certain of its suppliers associated with long-term supply agreements. While these arrangements help ensure the supply of components and finished goods, if these outsourcing partners or suppliers experience severe financial problems or other disruptions in their business, such continued supply could be reduced or terminated and the recoverability of manufacturing process equipment or prepayments could be negatively impacted.

The Group's products and services may be affected from time to time by design and manufacturing defects that could materially adversely affect the Group's business and result in harm to the Group's reputation

The Group offers complex hardware and software products and services that can be affected by design and manufacturing defects. Sophisticated operating system software and applications, such as those offered by the Group, often have issues that can unexpectedly interfere with the intended operation of hardware or software products. Defects may also exist in components and products the Group purchases from third parties. Component defects could make the Group's products unsafe and create a risk of environmental or property damage and personal injury. These risks may increase as the Group's products are introduced into specialized applications, including healthcare. In addition, the Group's service offerings may have quality issues and from time to time experience outages, service slowdowns or errors. As a result, the Group's services may not perform as anticipated and may not meet customer expectations. There can be no assurance the Group will be able to detect and fix all issues and defects in the hardware, software and services it offers. Failure to do so could result in widespread technical and performance issues affecting the Group's products and services. In addition, the Group may be exposed to product liability claims, recalls, product replacements or modifications, write-offs of inventory, property, plant and equipment, and/or intangible assets, and significant warranty and other expenses, including litigation costs and regulatory fines. Quality problems could also adversely affect the experience for users of the Group's products and services, and result in harm to the Group's reputation, loss of competitive advantage, poor market acceptance, reduced demand for products and services, delay in new product and services introductions and lost sales.

The Group relies on access to third-party digital content, which may not be available to the Group on commercially reasonable terms or at all

The Group contracts with numerous third parties to offer their digital content to customers. This includes the right to sell currently available music, movies, TV shows and books. The licensing or other distribution arrangements with these third parties are for relatively short terms and do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers and distributors currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for the Group to license or otherwise distribute their content in the future. Other content owners, providers or distributors may seek to limit the Group's access to, or increase the cost of, such content. The Group may be unable to continue to offer a wide variety of content at reasonable prices with acceptable usage rules, or continue to expand its geographic reach. Failure to obtain the right to make third-party digital content available, or to make such content available on commercially reasonable terms, could have a material adverse impact on the Group's financial condition and operating results.

Some third-party digital content providers require the Group to provide digital rights management and other security solutions. If requirements change, the Group may have to develop or license new technology to provide these solutions. There is no assurance the Group will be able to develop or license such solutions at a reasonable cost and in a timely manner. In addition, certain countries have passed or may propose and adopt legislation that would force the Group to license its digital rights management, which could lessen the protection of content and subject it to piracy and also could negatively affect arrangements with the Group's content providers.

The Group's future performance depends in part on support from third-party software developers

The Group believes decisions by customers to purchase its hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for the Group's products. If third-party software applications and services cease to be developed and maintained for the Group's products, customers may choose not to buy the Group's products.

The Group believes the availability of third-party software applications and services for its products depends in part on the developers' perception and analysis of the relative benefits of developing, maintaining and upgrading such software and services for the Group's products compared to competitors' platforms, such as Android for smartphones and tablets and Windows for personal computers.

DIRECTORS' REPORT

Risks and Uncertainties (continued)

The Group's future performance depends in part on support from third-party software developers (continued)

This analysis may be based on factors such as the market position of the Group and its products, the anticipated revenue that may be generated, expected future growth of product sales and the costs of developing such applications and services. The Group's minority market share in the global smartphone, tablet and personal computer markets could make developers less inclined to develop or upgrade software for the Group's products and more inclined to devote their resources to developing and upgrading software for competitors' products with larger market share. If developers focus their efforts on these competing platforms, the availability and quality of applications for the Group's devices may suffer.

The Group relies on the continued availability and development of compelling and innovative software applications for its products. The Group's products and operating systems are subject to rapid technological change, and if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not take advantage of these changes to deliver improved customer experiences or might not operate correctly and may result in dissatisfied customers.

The Group sells and delivers third-party applications for its products through the App Store, Mac App Store and TV App Store. The Group retains a commission from sales through these platforms. If developers reduce their use of these platforms to distribute their applications and offer in-app purchases to customers, then the volume of sales, and the commission that the Group earns on those sales, would decrease.

The Group relies on access to third-party intellectual property, which may not be available to the Group on commercially reasonable terms or at all

Many of the Group's products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, the Group believes such licenses generally can be obtained on reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on acceptable terms or at all. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude the Group from selling certain products or services, or otherwise have a material adverse impact on the Group's financial condition and operating results.

The Group could be impacted by unfavourable results of legal proceedings, such as being found to have infringed an intellectual property rights

The Group is subject to various legal proceedings and claims that have arisen in the ordinary course of business and have not yet been fully resolved, and new claims may arise in the future. In addition, agreements entered into by the Group sometimes include indemnification provisions which may subject the Group to costs and damages in the event of a claim against an indemnified third party.

Claims against the Group based on allegations of patent infringement or other violations of intellectual property rights have generally increased over time and may continue to increase. In particular, the Group together with Apple Inc. has historically faced a significant number of patent claims relating to its cellular-enabled products, and new claims may arise in the future. For example, technology and other patent-holding companies frequently assert their patents and seek royalties and often enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. Apple Inc. and the Group are vigorously defending infringement actions in courts in a number of U.S. jurisdictions and before the U.S. International Trade Commission, as well as internationally in various countries. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the merit of particular claims, litigation may be expensive, time consuming, disruptive to the Group's operations and distracting to management. In recognition of these considerations, the Group may enter into licensing agreements or other arrangements to settle litigation and resolve such disputes. No assurance can be given that such agreements can be obtained on acceptable terms or that litigation will not occur. These agreements may also significantly increase the Group's cost of sales and operating expenses.

The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Group or an indemnified third party in a reporting period for amounts in excess of management's expectations, the Group's financial condition and operating results for that reporting period could be materially adversely affected. Further, such an outcome could result in significant compensatory, punitive or treble monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against the Group that could materially adversely affect its financial condition and operating results.

While the Group maintains insurance coverage for certain types of claims, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise.

Apple Operations International Limited

DIRECTORS' REPORT

Risks and Uncertainties (continued)

The Group is subject to laws and regulations worldwide, changes to which could increase the Group's costs and individually or in the aggregate adversely affect the Group's business.

The Group is subject to laws and regulations affecting its operations in a number of areas. These laws and regulations affect the Group's activities in areas including, but not limited to, labour, advertising, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, telecommunications, mobile communications and media, television, intellectual property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy and data localisation requirements, anti-competition, environmental, health and safety.

By way of example, laws and regulations related to mobile communications and media devices in the many jurisdictions in which the Group operates are extensive and subject to change. Such changes could include, among others, restrictions on the production, manufacture, distribution and use of devices, locking devices to a carrier's network, or mandating the use of devices on more than one carrier's network. These devices are also subject to certification and regulation by governmental and standardisation bodies, as well as by cellular network carriers for use on their networks. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications, or delays in product shipment dates, or could preclude the Group from selling certain products.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make the Group's products and services less attractive to the Group's customers, delay the introduction of new products in one or more regions, or cause the Group to change or limit its business practices. The Group has implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that the Group's employees, contractors, or agents will not violate such laws and regulations or the Group's policies and procedures.

The Group's business is subject to the risks of international operations

The Group derives a majority of its net sales and earnings from its international operations. Compliance with applicable laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy and data localisation requirements, environmental laws, labour laws and anti-competition regulations, increases the costs of doing business in foreign jurisdictions. Although the Group has implemented policies and procedures to comply with these laws and regulations, a violation by the Group's employees, contractors or agents could nevertheless occur in some cases, compliance with the laws and regulations of one country could violate the laws and regulations of another country. Violations of these laws and regulations could materially adversely affect the Group's brand, international growth efforts and business.

The Group also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labour conditions, increased duties, taxes and other costs, political instability and international trade disputes. Gross margins on the Group's products in foreign countries, and on products that include components obtained from foreign suppliers, could be materially adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. The Group is also exposed to credit and collectability risk on its trade receivables with customers in certain international markets. There can be no assurance the Group can effectively limit its credit risk and avoid losses.

The Group's retail stores have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties

The Group's retail stores have required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel. The Group also has entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness. Because of their unique design elements, locations and size, these stores require substantially more investment than the Group's more typical retail stores.

Due to the high cost structure associated with the Group's retail stores, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs.

DIRECTORS' REPORT

Risks and Uncertainties (continued)

The Group's retail stores have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties (continued)

The Group's retail operations are subject to many factors that pose risks and uncertainties and could adversely impact the Group's financial condition and operating results, including macro-economic factors that could have an adverse effect on general retail activity. Other factors include, but are not limited to, the Group's ability to manage costs associated with retail store construction and operation; manage relationships with existing retail partners; manage costs associated with fluctuations in the value of retail inventory; and obtain and renew leases in quality retail locations at a reasonable cost.

Investment in new business strategies and acquisitions could disrupt the Group's ongoing business and present risks not originally contemplated

The Group has invested, and in the future may invest, in new business strategies or acquisitions. Such endeavours may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return of capital and unidentified issues not discovered in the Group's due diligence. These new ventures are inherently risky and may not be successful.

The Group's business and reputation may be impacted by information technology system failures or network disruptions

The Group may be subject to information technology system failures or network disruptions caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy and other continuity measures may be ineffective or inadequate, and the Group's business continuity and disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could adversely impact the Group's business by, among other things, preventing access to the Group's online services, interfering with customer transactions or impeding the manufacturing and shipping of the Group's products. These events could materially adversely affect the Group's reputation, financial condition and operating results.

There may be losses or unauthorised access to or releases of confidential information, including personally identifiable information, that could subject the Group to significant reputational, financial, legal and operational consequences

The Group's business requires it to use and store confidential information including, among other things, personally identifiable information ("PII") with respect to the Group's customers and employees. The Group devotes significant resources to network and data security, including through the use of encryption and other security measures intended to protect its systems and data. But these measures cannot provide absolute security, and losses or unauthorised access to or releases of confidential information occur and could materially adversely affect the Group's reputation, financial condition and operating results.

The Group's business also requires it to share confidential information with suppliers and other third parties. Although the Group takes steps to secure confidential information that is provided to third parties, such measures are not always effective and losses or unauthorised access to or releases of confidential information occur and could materially adversely affect the Group's reputation, financial condition and operating results.

For example, the Group may experience a security breach impacting the Group's information technology systems that compromises the confidentiality, integrity or availability of confidential information. Such an incident could, among other things, impair the Group's ability to attract and retain customers for its products and services, impact Apple Inc.'s stock price, materially damage supplier relationships, and expose the Group to litigation or government investigations, which could result in penalties, fines or judgements against the Group.

Although malicious attacks perpetrated to gain access to confidential information, including PII, affect many companies across various industries, the Group is at a relatively greater risk of being targeted because of its high profile and the value of the confidential information it creates, owns, manages, stores and processes.

The Group has implemented systems and processes intended to secure its information technology systems and prevent unauthorised access to or loss of sensitive data, including through the use of encryption and authentication technologies. As with all companies, these security measures may not be sufficient for all eventualities and may be vulnerable to hacking, employee error, malfeasance, system error, faulty password management or other irregularities. For example, third parties attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access the Group's information technology systems. To help protect customers and the Group, the Group monitors its services and systems for unusual activity and may freeze accounts under suspicious circumstances, which, among other things, may result in the delay or loss of customer orders or impede customer access to the Group's products and services.

DIRECTORS' REPORT

Risks and Uncertainties (continued)

There may be losses or unauthorised access to or releases of confidential information, including personally identifiable information, that could subject the Group to significant reputational, financial, legal and operational consequences (continued)

In addition to the risks relating to general confidential information described above, the Group may also be subject to specific obligations relating to health data and payment card data. Health data may be subject to additional privacy, security and breach notification requirements, and the Group may be subject to audit by governmental authorities regarding the Group's compliance with these obligations. If the Group fails to adequately comply with these rules and requirements, or if health data is handled in a manner not permitted by law or under the Group's agreements with healthcare institutions, the Group could be subject to litigation or government investigations, may be liable for associated investigatory expenses, and could also incur significant fees or fines.

Under payment card rules and obligations, if cardholder information is potentially compromised, the Group could be liable for associated investigatory expenses and could also incur significant fees or fines if the Group fails to follow payment card industry data security standards. The Group could also experience a significant increase in payment card transaction costs or lose the ability to process payment cards if it fails to follow payment card industry data security standards, which would materially adversely affect the Group's reputation, financial condition and operating results.

While the Group maintains insurance coverage that is intended to address certain aspects of data security risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise.

The Group's business is subject to a variety of laws, rules, policies and other obligations regarding data protection

The Group is subject to laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also may restrict transfers of PII among the Group. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Group to incur substantial costs or require the Group to change its business practices. Non-compliance could result in significant penalties or legal liability.

The Group makes statements about its use and disclosure of PII through its privacy policy, information provided on its website and press statements. Any failure by the Group to comply with these public statements or with international privacy-related or data protection laws and regulations could result in proceedings against the Group by governmental entities or others. In addition to reputational impacts, penalties could include ongoing audit requirements and significant legal liability.

The Group's business may be impacted by political events, international trade disputes, war, terrorism, natural disasters, public health issues, industrial accidents and other business interruptions.

Political events, international trade disputes, war, terrorism, natural disasters, public health issues, industrial accidents and other business interruptions could harm or disrupt international commerce and the global economy, and could have a material adverse effect on the Group and its customers, suppliers, contract manufacturers, logistics providers, distributors, cellular network carriers and other channel partners.

International trade disputes could result in tariffs and other protectionist measures that could adversely affect the Group's business. Tariffs could increase the cost of the Group's products and the components and raw materials that go into making them. These increased costs could adversely impact the gross margin that the Group earns on its products. Tariffs could also make the Group's products more expensive for customers, which could make the Group's products less competitive and reduce consumer demand. Countries may also adopt other protectionist measures that could limit the Group's ability to offer its products and services. Political uncertainty surrounding international trade disputes and protectionist measures could also have a negative effect on consumer confidence and spending, which could adversely affect the Group's business.

Apple Operations International Limited

DIRECTORS' REPORT

Risks and Uncertainties (continued)

The Group's business may be impacted by political events, international trade disputes, war, terrorism, natural disasters, public health issues, industrial accidents and other business interruptions (continued)

Many of the Group's operations and facilities as well as critical business operations of the Group's suppliers and contract manufacturers are in locations that are prone to earthquakes and other natural disasters. In addition, such operations and facilities are subject to the risk of interruption by fire, power shortages, nuclear power plant accidents and other industrial accidents, terrorist attacks and other hostile acts, labour disputes, public health issues and other events beyond the Group's control. Global climate change could result in certain types of natural disasters occurring more frequently or with more intense effects. Such events could make it difficult or impossible for the Group to manufacture and deliver products to its customers, create delays and inefficiencies in the Group's supply and manufacturing chain, and result in slowdowns and outages to the Group's service offerings.

Following an interruption to its business, the Group could require substantial recovery time, experience significant expenditures in order to resume operations, and lose significant sales. Because the Group relies on single or limited sources for the supply and manufacture of many critical components, a business interruption affecting such sources would exacerbate any negative consequences to the Group.

The Group's operations are also subject to the risks of industrial accidents at its suppliers and contract manufacturers. While the Group's suppliers are required to maintain safe working environments and operations, an industrial accident could occur and could result in disruption to the Group's business and harm to the Group's reputation. Should major public health issues, including pandemics, arise, the Group could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products and disruptions in the operations of the Group's suppliers and contract manufacturers.

The Group's financial performance is subject to risks associated with changes in the value of the U.S. dollar relative to local currencies

The Group's primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar-denominated sales, cost of sales and operating expenses worldwide. Gross margins on the Group's products in foreign countries and on products that include components obtained from foreign suppliers could be materially adversely affected by foreign currency exchange rate fluctuations.

Weakening of foreign currencies relative to the U.S. dollar adversely affects the U.S. dollar value of the Group's foreign currency-denominated sales and earnings, and generally leads the Group to raise international pricing, potentially reducing demand for the Group's products. In some circumstances, for competitive or other reasons, the Group may decide not to raise international pricing to offset the U.S. dollar's strengthening, which would adversely affect the U.S. dollar value of the gross margins the Group earns on foreign currency-denominated sales.

Conversely, a strengthening of foreign currencies relative to the U.S. dollar, while generally beneficial to the Group's foreign currency-denominated sales and earnings, could cause the Group to reduce international pricing and incur losses on its foreign currency derivative instruments, thereby limiting the benefit. Additionally, strengthening of foreign currencies may increase the Group's cost of product components denominated in those currencies, thus adversely affecting gross margins.

The Group uses derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not be effective to offset any, or more than a portion, of the adverse financial effects of unfavourable movements in foreign exchange rates over the limited time the hedges are in place.

The Group is exposed to credit risk and fluctuations in the market values of its investment portfolio

The Group's investments can be negatively affected by liquidity, credit deterioration, financial results, market and economic conditions, political risk, sovereign risk, interest rate fluctuations or other factors. As a result, the value and liquidity of the Group's cash, cash equivalents and marketable and non-marketable securities may fluctuate substantially. Therefore, although the Group has not realized any significant losses on its cash, cash equivalents and marketable and non-marketable securities, future fluctuations in their value could result in significant realized losses and could have a material adverse impact on the Group's financial condition and operating results.

Apple Operations International Limited

DIRECTORS' REPORT

Risks and Uncertainties (continued)

The Group is exposed to credit risk on its trade accounts receivable, vendor non-trade receivables and prepayments related to long-term supply agreements, and this risk is heightened during periods when economic conditions worsen.

The Group distributes its products through third-party cellular network carriers, wholesalers, retailers and resellers. The Group also sells its products directly to small and mid-sized businesses and education, enterprise and government customers. A substantial majority of the Group's outstanding trade receivables are not covered by collateral, third-party bank support or financing arrangements, or credit insurance. The Group's exposure to credit and collectability risk on its trade receivables is higher in certain international markets and its ability to mitigate such risks may be limited. The Group also has unsecured vendor non-trade receivables resulting from purchases of components by outsourcing partners and other vendors that manufacture sub-assemblies or assemble final products for the Group. In addition, the Group has made prepayments associated with long-term supply agreements to secure supply of inventory components. As of 29 September 2018, a significant portion of the Group's trade receivables was concentrated within cellular network carriers, and its vendor non-trade receivables and prepayments related to long-term supply agreements were concentrated among a few individual vendors located primarily in Asia. While the Group has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables, as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

The Group could be subject to changes in its tax rates, the adoption of new local or international tax legislation or exposure to additional tax liabilities.

The Group is subject to taxes in numerous jurisdictions, where a number of the Group's subsidiaries are organized. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. The Group's effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation.

The Group is also subject to the examination of its tax returns and other tax matters by tax authorities and governmental bodies. The Group regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these examinations. If the Group's effective tax rates were to increase, or if the ultimate determination of the Group's taxes owed is for an amount in excess of amounts previously accrued, the Group's financial condition, operating results and cash flows could be materially adversely affected.

The Group manages all its risk and uncertainties together with its ultimate parent Apple Inc.

Refer to Note 6, "Financial Risk Management and Financial Instruments" of the consolidated financial statements for details of the Group's financial risk management policies.

Dividends

Dividends of \$69.1 billion (2017: \$1.6 billion) were paid by the Group with \$68.0 billion (2017: \$1.5 billion) paid by the Company to its ultimate parent Apple Inc. during the year. The dividends were fully subject to US tax.

Books and Accounting Records

The directors believe that they have complied with the requirements of Section 281 to 285 of the Companies Act 2014 with regard to accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the finance function. These books and accounting records are maintained at the Company's registered office, Hollyhill Industrial Estate, Hollyhill, Co. Cork, Ireland.

Directors, Secretaries and Their Interests

The directors of the Company who served during the year were, Michael Joseph Boyd Jnr., BJ Wattous, Gene Levoff, and Peter Denwood. The secretaries of the Company who served during the year were, Gene Levoff and Peter Denwood. On 17 May 2018, Damon Nakamura was appointed alternate director for Michael Joseph Boyd Jnr. and on 18 September 2018, Gene Levoff resigned as director and secretary of the Company.

The directors and secretary who held office at 29 September 2018 had no interests in shares in or debentures of, the Company or any related undertaking of the Company at the end of the financial year, or at the beginning of the financial year (or date of appointment, if later) requiring disclosure in the Directors' Report under Section 329 of the Companies Act 2014.

Apple Operations International Limited

DIRECTORS' REPORT

Post Balance Sheet Events

The Group and Company declared and paid a dividend of \$61.6 billion subsequent to the financial year end.

Research and Development

The Group carries out research and development activities aimed at enhancing existing products and services and to expand the range of its offerings through research and development.

Relevant Audit Information

The directors believe that they have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information, as defined under Section 330 of the Companies Act 2014, and to establish that the Group's statutory auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Group's statutory auditors are unaware.

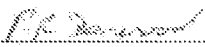
Audit Committee

The directors of the Company decided not to establish an audit committee. The directors consider that the responsibilities and functions of the audit committee under the requirements of the Companies Act 2014 are directly or indirectly performed by the Apple Inc. Audit and Finance Committee.

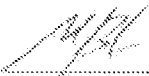
Independent Auditor

Ernst & Young, Chartered Accountants, will continue in office in accordance with Section 383(2) of the Companies Act 2014.

On behalf of the board


Peter Denwood
Director

Date: April 25, 2019


Michael Joseph Boyd Jr.
Director

Date: April 25, 2019

Apple Operations International Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the directors' report and financial statements of the Company and the Group in accordance with applicable law and regulations.

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. The directors have prepared the consolidated financial statements of the Group in accordance with IFRS and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. The directors have elected to prepare the Company financial statements in accordance with FRS 102 and the Companies Act 2014.


Under Irish company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities, and financial position, of the Company and of the Group as of the end of the financial year, and the profit or loss of the Group taken as a whole for the financial year, and otherwise comply with the Companies Act 2014.

In preparing these Group and Company financial statements, the directors are required to:


- * Select suitable accounting policies and then apply them consistently;
- * Make judgements and estimates that are reasonable and prudent;
- * State whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and reasons for any material departure from those standards; and
- * Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for ensuring that the Company keeps adequate accounting records which correctly explain and record the transactions of the Company, enabling at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, and ensuring that the Group and the Company financial statements and directors' report comply with the Companies Act 2014 and enable them to be audited. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

On behalf of the board


Peter Denwood
Director

Date: April 15, 2019


Michael Joseph Boyd Jnr.
Director

Date: April 15, 2019



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APPLE OPERATIONS INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of Apple Operations International Limited ('the Company') and its subsidiaries ('the Group') for the year ended 29 September 2018, which comprise the Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income, Consolidated Balance Sheets, Consolidated Statements of Shareholders' Equity, Consolidated Statements of Cash Flows, Company Statements of Financial Position, Company Statements of Changes in Equity and notes to the financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, Accounting Standards including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (Irish Generally Accepted Accounting Practice).

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 29 September 2018 and of its profit for the year then ended;
- the Company financial statements give a true and fair view of the assets, liabilities and financial position of the Company as at 29 September 2018;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with Irish Generally Accepted Accounting Practice; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APPLE OPERATIONS INTERNATIONAL LIMITED (Continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- in our opinion, the information given in the Directors' Report is consistent with the financial statements; and
- in our opinion, the Directors' Report has been prepared in accordance with the Companies Act 2014.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company statement of financial position is in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made. We have nothing to report in this regard.



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APPLE OPERATIONS INTERNATIONAL LIMITED (Continued)

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: http://www.iasa.ie/getmedia/b2389013-1cfc-459b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

This description forms part of our auditor's report.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

George Deegan
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm

Dublin

Date: 25 April 2019

Apple Operations International Limited

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Years ended	
		29 September 2018	30 September 2017
		\$ m	\$ m
Net sales		155,832	137,805
Cost of sales		(97,822)	(86,130)
Gross margin		58,010	51,675
Operating expenses:			
Research and development		(7,195)	(5,854)
Selling, general and administrative		(9,158)	(7,374)
Total operating expenses		(16,353)	(13,228)
Operating income		41,657	38,447
Other income/(expense), net	3	5,022	4,933
Income before provision for income taxes		46,679	43,380
Provision for income taxes	5	(9,664)	(6,036)
Net income		40,015	37,344

See accompanying notes to consolidated financial statements.

Apple Operations International Limited

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended	
	29 September 2018	30 September 2017
	\$'m	\$'m
Net income	40,015	37,344
Other comprehensive income/(loss) which will be reclassified to the Statements of Operations in subsequent periods:		
Change in foreign currency translation, net of tax:	(228)	123
Change in unrealised gains/losses on derivative instruments, net of tax:		
Change in fair value of derivatives	358	1,074
Adjustment for net (gains)/losses realised and included in net income	117	(1,359)
Total change in unrealised gains/losses on derivative instruments	475	(285)
Change in unrealised gains/losses on marketable securities, net of tax:		
Change in fair value of marketable securities	(4,435)	(1,141)
Adjustment for net (gains)/losses realised and included in net income	(10)	(171)
Total change in unrealised gains/losses on marketable securities	(4,445)	(1,312)
Total other comprehensive income/(loss)	(4,190)	(1,474)
Total comprehensive income	35,817	35,870

See accompanying notes to consolidated financial statements.

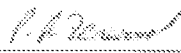
Apple Operations International Limited

CONSOLIDATED BALANCE SHEETS

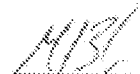
		As of 29 September 2018	As of 30 September 2017	As of 25 September 2016
		\$'m	\$'m	\$'m
ASSETS:				
Current assets:	Note			
Cash and cash equivalents	6	15,978	15,475	12,813
Marketable securities	6	36,947	48,059	36,760
Accounts receivable, net	3/6	27,007	20,972	18,263
Other current assets		9,127	10,986	5,726
Total current assets		89,059	95,472	73,562
Non-current assets:				
Marketable securities	6	165,839	187,635	164,820
Property, plant and equipment, net	7	17,021	12,845	10,437
Deferred tax asset	5	16,639	21,339	25,660
Other non-current assets		8,269	5,857	5,381
Total non-current assets		207,768	227,676	206,298
Total assets		296,827	323,148	279,860
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Current liabilities:				
Accounts payable	3/6	30,668	24,740	20,077
Other current liabilities		16,693	16,797	14,577
Deferred revenue		2,609	3,062	3,573
Total current liabilities		51,971	44,599	38,227
Non-current liabilities:				
Other non-current liabilities		6,873	5,257	4,656
Total non-current liabilities		6,873	5,257	4,656
Total liabilities		58,844	51,856	42,886
Shareholders' equity:				
Called up share capital presented as equity	1	1	1	1
Retained earnings		241,489	270,583	234,600
Other reserves		(3,497)	708	2,173
Total shareholders' equity		237,993	271,292	236,774
Total liabilities and shareholders' equity		296,827	323,148	279,860

See accompanying notes to consolidated financial statements.

On behalf of the board:


Peter Denwood
Director

Date: April 25, 2019


Michael Joseph Boyd Jr.
Director

Date: April 25, 2019

Apple Operations International Limited

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Called up share capital presented as equity *	Retained Earnings	Other Reserves	Total Shareholders' Equity
	\$'m	\$'m	\$'m	\$'m
Balances as of 25 September 2016	1	234,800	2,173	236,974
Net income	—	37,344	—	37,344
Other comprehensive income/(loss)	—	—	(1,474)	(1,474)
Dividends**	—	(1,581)	—	(1,581)
Tax benefit from equity awards	—	—	9	9
Balances as of 30 September 2017	1	270,563	708	271,292
Net income	—	40,015	—	40,015
Other comprehensive income/(loss)	—	—	(4,198)	(4,198)
Dividends**	—	(69,129)	—	(69,129)
Tax benefit from equity awards	—	—	16	16
Capital contribution	—	—	(13)	(13)
Balances as of 29 September 2018	1	241,469	(3,487)	237,983

* A listing of each class of share capital is provided in Note 5, "Called up share capital presented as equity" of the Company financial statements

** Dividend per share for 2016 was \$08.748 (2017: \$2,230)

See accompanying notes to consolidated financial statements.

Apple Operations International Limited
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended	
	29 September 2018	30 September 2017
	\$'m	\$'m
Cash and cash equivalents, beginning balances	15,475	12,813
Operating activities:		
Net income	40,015	37,344
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortisation	7,207	8,908
Deferred income tax expense	4,461	4,224
Other	(676)	(338)
Changes in operating assets and liabilities:		
Accounts receivable	(6,045)	(2,690)
Other current and non-current assets	1,246	(5,358)
Accounts payable	5,990	4,582
Deferred revenue	(725)	(598)
Other current and non-current liabilities	(305)	1,776
Cash generated by operating activities	51,168	45,650
Investing activities:		
Purchases of marketable securities	(68,449)	(143,166)
Proceeds from maturities of marketable securities	51,929	24,913
Proceeds from sales of marketable securities	44,476	82,546
Payments for acquisition of property, plant and equipment	(7,804)	(5,499)
Purchases of non-marketable securities	(1,871)	(640)
Other	(659)	209
Cash generated by/(used) in investing activities	17,522	(41,637)
Financing activities:		
Payments for dividends	(68,187)	(1,551)
Cash used in financing activities	(68,187)	(1,551)
Increase in cash and cash equivalents	503	2,862
Cash and cash equivalents, ending balances	15,978	15,475
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	1,418	2,032

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRS and those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

Basis of Presentation and Preparation

The consolidated financial statements are presented in U.S. dollars (“\$”) which is the Company’s functional and presentational currency. The consolidated financial statements, which are rounded to the nearest million (unless otherwise stated) have been prepared under the historical cost convention, except where assets and liabilities are stated at fair value in accordance with relevant accounting policies.

The consolidated financial statements are comprised of Apple Operations International Limited and its subsidiaries. Subsidiaries are included in the Group financial statements from the date on which control over the operating and financing policies is obtained, and cease to be consolidated from the date on which control is transferred out of the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intercompany transactions, balances and unrealised gains on transactions between Group subsidiaries are eliminated on consolidation.

The Group’s financial year is the 52 or 53 week period that ends on the last Saturday of September. The Group’s fiscal years 2018 and 2016 spanned 52 weeks each, whereas fiscal year 2017 included 53 weeks.

Refer to Note 1, “Summary of Significant Accounting Policies” in the Company’s financial statements for details relating to the basis of preparation for the Company.

All of the subsidiaries incorporated in Ireland, as set out in Note 2, “Investment in Subsidiaries” of the Company’s financial statements, have availed of the exemption under Section 357 of the Companies Act 2014 from the requirement to annex their statutory financial statements to their annual return.

Judgements and Key Sources of Estimation Uncertainty

Management makes estimates and assumptions concerning the future in the preparation of the consolidated financial statements which can significantly impact the reported amounts of assets and liabilities. The significant estimates and assumptions used in the preparation of the Group’s financial statements are outlined in the relevant notes. Actual results could differ materially from those estimated.

Management believes the Group’s critical accounting policies and estimates are those related to revenue recognition, impairment of marketable debt securities, valuation of manufacturing-related assets and estimation of purchase commitment cancellation fees, warranty costs, income taxes and legal and other contingencies.

Recent Accounting Pronouncements

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 29 September 2018 and have not been applied in preparing the consolidated financial statements of the Group. None of the standards are expected to have a material effect on the consolidated financial statements of the Group, except for the following:

Leases

IFRS 16, Leases (“IFRS 16”), introduces a single lessee accounting model, under which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The Group will adopt IFRS 16 for the fiscal year ended 29 September 2020. The Group is evaluating the impact IFRS 16 will have on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

First Time Adoption

These financial statements are the first consolidated financial statements prepared by the Group under IFRS. Accordingly, the Group has prepared financial statements which comply with IFRS applicable as of and for the financial year ended 29 September 2018, together with the comparative information as of and for the financial year ended 30 September 2017, as described in the accounting policies. In preparing these financial statements, the Group's opening balance sheet was prepared as of 25 September 2016, the Group's date of transition to IFRS.

The Group has early adopted all of the requirements of IFRS 9, Financial Instruments ("IFRS 9") and IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23").

Revenue Recognition

Net sales is recognised to the extent that the Group obtains the right to consideration in exchange for its performance. Net sales is measured at the fair value of consideration received excluding discounts, rebates, VAT and other sale taxes or duty.

Sale of goods

Net sales from sales of goods is recognised upon transfer of significant risk and rewards of ownership of the goods to the customer. Net sales is measured at the fair value of the consideration received or receivable. Net sales is not recognised to the extent there are significant uncertainties regarding recovery of the consideration due. The Group records reductions to net sales for estimated commitments related to price protection and for customer incentive programs. The estimated cost of these programs is recognised in the period the Group has sold the product and committed to a plan. The Group also records reductions to net sales for expected future product returns based on the Group's historical experience. Net sales is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Revenue recognition for arrangements with multiple deliverables

For multi-element arrangements that include hardware products containing software essential to the hardware product's functionality, undelivered software elements that relate to the hardware product's essential software, and undelivered non-software services, the Group allocates net sales to all deliverables based on their relative selling prices. In such circumstances, the Group uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Group sells the deliverable separately and is the price actually charged by the Group for that deliverable. ESPs reflect the Group's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

For sales of iPhone, iPad, Mac and certain other products, the Group has indicated it may from time to time provide future unspecified software upgrades to the device's essential software and/or non-software services free of charge. The Group has identified up to three deliverables in arrangements involving the sale of these devices. The first deliverable is the hardware and software essential to the functionality of the hardware device delivered at the time of sale. The second deliverable is the embedded right included with qualifying devices to receive, on a when-and-if-available basis, future unspecified software upgrades relating to the product's essential software. The third deliverable is the non-software services to be provided to qualifying devices. The Group allocates Net sales between these deliverables using the relative selling price method. Because the Group has neither VSOE nor TPE for these deliverables, the allocation of Net sales has been based on the Group's ESPs. Amounts allocated to the delivered hardware and the related essential software are recognised at the time of sale provided the other conditions for revenue recognition have been met. Amounts allocated to the embedded unspecified software upgrade rights and the non-software services are deferred and recognised on a straight-line basis over the estimated period the software upgrades and non-software services are expected to be provided.

Sales of digital content

For sales of digital content the Group recognises net sales when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collection is probable. Net sales related to digital content is recognized when such content is available for download by the end user. For third-party applications sold through the App Store and Mac App Store and certain digital content sold through the iTunes Store, the Group does not determine the selling price of the products and is not the primary obligor to the customer. Therefore, the Group accounts for such sales on a net basis by recognising in net sales only the commission it retains from each sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Share-Based Compensation

The Group generally measures share-based compensation based on the closing price of Apple Inc.'s common stock on the date of grant, and recognises expense on a straight-line basis for its estimate of equity awards that will ultimately vest. Further information regarding share-based compensation can be found in Note 4, "Share-Based Compensation".

Income Taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements of the Group except where the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Uncertain tax positions are evaluated in a two-step process. The Group first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more likely than not recognition threshold it is then measured to determine the amount of benefit to recognise in the financial statements. The tax position is measured as the single best estimate.

Current and deferred tax is recognised in the Consolidated Statements of Operations, except to the extent that it relates to items recognised in the Consolidated Statements of Comprehensive Income or directly in the Consolidated Statements of Shareholders' Equity. In this case, the tax is also recognised in the Consolidated Statements of Comprehensive Income or directly in the Consolidated Statements of Shareholders' Equity, respectively.

Software Development Costs

Research and development ("R&D") costs that are not eligible for capitalisation are expensed as incurred. Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalisation beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Group's products are released soon after technological feasibility has been established and as a result software development costs were expensed as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Financial instruments

(a) Recognition

The Group classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortised cost. The Group determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Group's business model for managing the financial assets and their contractual cash flow characteristics. For other equity instruments, on the day of acquisition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Group has opted to measure them at FVTPL.

(b) Measurement

Financial assets at FVTOCI

Financial assets at FVTOCI are initially recognised at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised in the Consolidated Statements of Comprehensive Income.

Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are initially recognised at fair value and subsequently carried at amortised cost less any impairment.

Cash and cash equivalents comprise of cash balances, call deposits and deposits with original maturity of three months or less.

Financial assets and liabilities at FVTPL

Financial assets and liabilities at FVTPL are initially recorded at fair value and transaction costs are expensed in the Consolidated Statements of Operations. Realised and unrealised gains and losses arising from changes in the fair value of financial assets and liabilities held at FVTPL are included in the Consolidated Statements of Operations in the period in which they arise.

(c) Impairment of financial assets at amortised cost and FVTOCI

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost and FVTOCI.

At each reporting date, the Group measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses.

Impairment losses on financial assets are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised.

(d) De-recognition

Financial assets

The Group de-recognises financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on de-recognition are recognised in the Consolidated Statements of Operations.

Financial liabilities

The Group de-recognises financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability de-recognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Derivative Financial Instruments

The Group accounts for its derivative instruments as either assets or liabilities and carries them at fair value.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income ("OCI") in the Consolidated Statements of Shareholder's Equity and reclassified into the Consolidated Statements of Operations in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognised in the Consolidated Statements of Operations in the current period. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness.

For derivative instruments that hedge the exposure to changes in foreign currency exchange rates used for translation of the net investment in a foreign operation and that are designated as a net investment hedge, the net gain or loss on the effective portion of the derivative instrument is reported in the same manner as a foreign currency translation adjustment. For forward exchange contracts designated as net investment hedges, the Group excludes changes in fair value relating to changes in the forward carry component from its definition of effectiveness. Accordingly, any gains or losses related to this forward carry component are recognised in earnings in the current period. Derivatives that do not qualify as hedges are adjusted to fair value through earnings in the current period.

Fair Value Measurements

The Group's valuation techniques used to measure the fair value of money market funds and certain marketable equity securities are derived from quoted prices in active markets for identical assets or liabilities. The valuation techniques used to measure the fair value of the Group's debt instruments and other financial instruments, which generally have counterparties with high credit ratings, are based on quoted market prices or model-driven valuations using significant inputs derived from or corroborated by observable market data.

Property, Plant and Equipment

Depreciation on property, plant and equipment is recognised on a straight-line basis over the estimated useful lives of the assets, which for buildings is the lesser of 30 years or the remaining life of the underlying building; between one and five years for machinery and equipment, including product tooling and manufacturing process equipment; and the shorter of lease term or useful life for leasehold improvements. Capitalised costs related to internal-use software are amortised on a straight-line basis over the estimated useful lives of the assets, which range from three to five years.

Warranty Costs

The Group accrues for the estimated cost of warranties in the period the related revenue is recognised based on historical and projected warranty claim rates, historical and projected cost per claim and knowledge of specific product failures that are outside of the Group's typical experience. The Group regularly reviews these estimates and adjusts the amounts as necessary. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required and could materially affect the Group's financial condition and operating results.

Operating Leases

Payments made under operating leases are charged to the Consolidated Statements of Operations on a straight-line basis over the period of the lease.

Apple Operations International Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Other Statutory Information

Auditors' remuneration

The following table shows the fees* paid to the independent auditor in 2018 and 2017:

	Years ended	
	29 September 2018	30 September 2017
	\$'000	\$'000
Audit of Financial Statements	471	403
Other Assurance Services	142	109
Tax Advisory Services	475	430
	<u>1,088</u>	<u>942</u>

*This excludes auditors' remuneration borne by Apple Inc. on behalf of the Group.

Staff Numbers and Costs

The following table shows the payroll costs incurred in 2018 and 2017:

	Years ended	
	29 September 2018	30 September 2017
	\$'m	\$'m
Wages and Salaries	2,746	2,388
Social Welfare costs	346	260
Share based payments (Note 4, "Share-Based Compensation")	781	644
Pension costs	139	119
	<u>3,964</u>	<u>3,409</u>

The Group had approximately 43,325 average full time equivalent employees for 2018 (2017: 41,200).

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Consolidated Financial Statement Details

The following tables show the consolidated financial statement details of the Group as of 29 September 2018, 30 September 2017 and 25 September 2016:

Accounts receivable, net

	As of 29 September 2018	As of 30 September 2017	As of 25 September 2016
	\$'m	\$'m	\$'m
Trade receivables	13,237	10,741	9,998
Vendor non-trade receivables	11,360	9,209	6,995
Amounts owed from Ultimate Parent (Note 9, "Related Party Transactions")	1,840	604	42
Amounts owed from Other Apple Related Parties (Note 9, "Related Party Transactions")	570	338	1,238
	<u>27,007</u>	<u>20,892</u>	<u>18,283</u>

Accounts payable

	As of 29 September 2018	As of 30 September 2017	As of 25 September 2016
	\$'m	\$'m	\$'m
Trade payables	24,027	19,491	15,949
Amounts owed to Ultimate Parent (Note 9, "Related Party Transactions")	3,846	2,691	1,711
Amounts owed to Other Apple Related Parties (Note 9, "Related Party Transactions")	2,786	2,658	2,417
	<u>30,660</u>	<u>24,740</u>	<u>20,077</u>

Other income/(expense), net

	Years ended	
	29 September 2018	30 September 2017
	\$'m	\$'m
Interest income	5,403	5,314
Other expense	(471)	(381)
	<u>5,022</u>	<u>4,933</u>

Note 4 – Share-Based Compensation

As of 29 September, 2018, the Group's Ultimate Parent had employee benefit plans relevant to the Group: the 2014 Employee Stock Plan (the "2014 Plan"), and the Employee Stock Purchase Plan (the "Purchase Plan"). Under these plans, the Group's Ultimate Parent issues shares of Apple Inc. upon vesting of restricted stock units ("RSUs"), or the employees purchase of shares under the plans. The issuance of shares is undertaken solely by Apple Inc. The relevant employee benefit plans are summarised as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Share-Based Compensation (continued)

2014 Employee Stock Plan

In the second quarter of 2014, Apple shareholders approved the 2014 Employee Stock Plan (the "2014 Plan"). The 2014 Plan provides for broad-based equity grants to employees, including executive officers, and permits the granting of RSUs, stock grants, performance-based awards, stock options and stock appreciation rights, as well as cash bonus awards. RSUs granted under the 2014 Plan generally vest over four years, based on continued employment, and are settled upon vesting in shares of Apple common stock on a one-for-one basis. Each share issued with respect to RSUs granted under the 2014 Plan reduces the number of shares available for grant under the plan by two shares. RSUs cancelled and shares withheld to satisfy tax withholding obligations increase the number of shares available for grant under the 2014 Plan utilising a factor of two times the number of RSUs cancelled or shares withheld. Currently, all RSUs granted under the 2014 Plan have dividend equivalent rights ("DERs"), which entitle holders of RSUs to the same dividend value per share as holders of common stock. DERs are subject to the same vesting and other terms and conditions as the corresponding unvested RSUs. DERs are accumulated and paid when the underlying shares vest.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "Purchase Plan") is an Apple shareholder-approved plan under which substantially all employees may purchase Apple common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of six-month offering periods. An employee's payroll deductions under the Purchase Plan are limited to 10% of the employee's compensation and employees may not purchase more than \$25,000 of stock during any calendar year.

Restricted Stock Units

A summary of the Group's RSU's granted and related information for 2016 and 2017 is as follows:

	Years ended			
	29 September 2016		30 September 2017	
	Number of RSUs (in thousands)	Weighted- Average Grant Date Fair Value Per RSU	Number of RSUs (in thousands)	Weighted- Average Grant Date Fair Value Per RSU
Restricted Stock Units granted	5,809	\$ 162.40	6,828	\$ 120.24

Share-Based Compensation Expense

The share-based compensation expense included in the Consolidated Statements of Operations is \$731 million (2017: \$644 million).

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Provision for Income Taxes

The major components of income tax for the years ended 29 September 2018 and 30 September 2017 are:

	Years ended	
	29 September 2018	30 September 2017
	\$'m	\$'m
Current income tax:		
Corporation tax charge	1,547	1,848
Adjustment in respect of prior years	356	(36)
Total current income tax	2,203	1,812
Deferred income tax:		
Origination and reversal of temporary differences	4,734	4,163
Employee share-based payments	(16)	(22)
Adjustment in respect of prior years	(237)	63
Total deferred income tax	4,481	4,204
Provision for income taxes	6,684	6,036

The following table shows the reconciliation of income tax to accounting profit multiplied by the applicable tax rate for 2018 and 2017:

	Years ended	
	29 September 2018	30 September 2017
	\$'m	\$'m
Income before provision for income taxes	45,679	43,360
Tax charge at the applicable tax rate of 12.5%	5,836	5,423
Expenses not deductible for tax purposes	44	3
Differences in effective tax rates on overseas earnings	150	(130)
Adjustment in respect of prior years	98	27
Other	536	716
Provision for income taxes	6,664	6,036

The corporate income taxes reported in the consolidated statements of operations, balance sheets, and statements of cash flows do not include US-level corporate taxes borne by Apple Inc.

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Provision for Income Taxes (continued)

The Group's deferred tax assets are analysed as follows:

	Intra group transactions	Other	Total
	\$'m	\$'m	\$'m
As of 25 September 2016:	22,562	3,098	25,660
Tax (charged)/credited to the Consolidated Statements of Operations	(4,351)	127	(4,224)
Tax charged to the Consolidated Statements of Comprehensive Income	—	(97)	(97)
As of 30 September 2017	18,211	3,128	21,339
Tax charged to the Consolidated Statements of Operations	(4,287)	(94)	(4,381)
Tax charged to the Consolidated Statements of Comprehensive Income	—	(103)	(103)
Tax charged to the Consolidated Statements of Shareholders' Equity	—	(136)	(136)
As of 29 September 2018	13,844	2,795	16,639

Uncertain tax positions:

The Group classifies tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the Consolidated Balance Sheets.

The changes in the balance of gross tax benefits, for 2018 are as follows:

	As of 29 September 2018
	\$'m
Carrying amount at beginning of year	2,302
Additional provisions charged	530
Carrying amount at end of year	2,832

The Group is subject to taxation and files income tax returns in many jurisdictions. The Group is subject to audits by local and foreign tax authorities.

The Group believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Group's tax audits are resolved in a manner not consistent with its expectations, the Group could be required to adjust its provision for income taxes in the period such resolution occurs.

On 30 August 2016, the European Commission announced its decision that Ireland granted State aid to the Group by providing tax opinions in 1991 and 2007 concerning the tax allocation of profits of the Irish branches of two subsidiaries of the Group (the "State Aid Decision"). The State Aid Decision ordered Ireland to calculate and recover additional taxes from the Group for the period June 2003 through December 2014. The recovery amount was calculated to be €13.1 billion, plus interest of €1.2 billion. Irish legislative changes, effective as of January 2015, eliminated the application of the tax opinions from that date forward. The Group believes the State Aid Decision to be without merit and appealed to the General Court of the Court of Justice of the European Union. Ireland has also appealed the State Aid Decision. As of 29 September 2018, the entire recovery amount plus interest was funded into escrow, where it will remain restricted from general use pending conclusion of all appeals. Refer to Note 6, "Financial Risk Management and Financial Instruments" for more information.

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments

The Group's activities expose it to a variety of financial risks that include interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk. These financial risks are actively managed by Apple Inc.'s treasury department on behalf of the Group under strict policies and guidelines. The treasury department monitors market conditions with a view to minimising the exposure of the Group to changing market factors while at the same time minimising the volatility of the funding costs of the Group. The Group uses derivative financial instruments such as foreign currency contracts to manage the financial risks associated with the underlying business activities of the Group.

Cash, Cash Equivalents, Marketable and Non-Marketable Securities

The Group classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Cash and cash equivalents comprise of cash balances, call deposits and deposits with original maturity of three months or less.

The following tables show the Group's cash, cash equivalents, marketable securities and non-marketable securities by significant investment category for 2018, 2017 and 2016:

	As of 29 September 2018					
	Adjusted Cost	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	Other non-current assets
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Financial assets at amortised cost:						
Cash	9,808	9,808	9,808	—	—	—
Financial assets at fair value through profit or loss:						
Money market funds ⁽¹⁾	5,381	5,381	5,381	—	—	—
Non-marketable securities ⁽²⁾	1,727	2,116	—	—	—	2,116
Subtotal	7,108	7,497	5,381	—	—	2,116
Financial assets at fair value through other comprehensive income:						
U.S. Treasury securities ⁽³⁾	41,808	40,657	—	5,846	84,811	—
U.S. agency securities ⁽⁴⁾	2,351	2,305	97	360	1,848	—
Non-U.S. government securities ⁽⁵⁾	21,496	21,296	—	3,954	17,942	—
Certificates of deposit and time deposits ⁽⁶⁾	2,421	2,421	686	1,039	498	—
Commercial paper ⁽⁷⁾	918	916	6	910	—	—
Corporate securities ⁽⁸⁾	120,325	116,469	—	24,434	84,053	—
Mortgage- and asset-backed securities ⁽⁹⁾	18,105	17,491	—	804	16,687	—
Subtotal	207,422	203,575	789	36,947	185,853	—
Total ⁽¹⁰⁾	224,338	220,880	15,978	36,947	185,853	2,116

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments (continued)

Cash, Cash Equivalents, Marketable and Non-Marketable Securities (continued)

	As of 30 September 2017					
	Adjusted Cost	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	Other non-current assets
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Financial assets at amortised cost:						
Cash	6,710	6,710	6,710	—	—	—
Financial assets at fair value through profit or loss:						
Money market funds ⁽¹⁾	4,830	4,830	4,830	—	—	—
Non-marketable securities ⁽²⁾	1,502	1,834	—	—	—	1,834
Subtotal	6,132	6,464	4,830	—	—	1,834
Financial assets at fair value through other comprehensive income:						
U.S. Treasury securities ⁽³⁾	49,288	49,134	715	14,582	33,837	—
U.S. agency securities ⁽³⁾	4,587	4,580	980	1,982	1,600	—
Non-U.S. government securities ⁽³⁾	7,754	7,027	9	99	7,919	—
Certificates of deposit and time deposits ⁽³⁾	5,140	5,140	819	3,550	771	—
Commercial paper ⁽³⁾	2,533	2,533	1,482	1,151	—	—
Corporate securities ⁽³⁾	148,124	148,849	121	26,039	122,689	—
Municipal securities ⁽³⁾	21	21	—	—	21	—
Mortgage- and asset-backed securities ⁽³⁾	21,684	21,545	—	656	20,889	—
Subtotal	259,251	259,829	4,106	48,059	187,635	—
Total ⁽⁴⁾	252,073	253,003	15,475	48,059	187,635	1,834

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments (continued)

Cash, Cash Equivalents, Marketable and Non-Marketable Securities (continued)

	As of 28 September 2018					
	Adjusted Cost	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	Other non-current assets
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Financial assets at amortised cost:						
Cash	6,431	6,431	6,431	—	—	—
Financial assets at fair value through profit or loss:						
Money market funds ⁽¹⁾	1,651	1,651	1,651	—	—	—
Non-marketable securities ⁽²⁾	1,000	1,000	—	—	—	1,000
Subtotal	2,651	2,651	1,651	—	—	1,000
Financial assets at fair value through other comprehensive income:						
U.S. Treasury securities ⁽³⁾	35,776	36,091	688	11,279	24,129	—
U.S. agency securities ⁽³⁾	5,405	5,421	1,220	2,009	2,152	—
Non-U.S. government securities ⁽³⁾	7,490	7,731	100	717	6,914	—
Certificates of deposit and time deposits ⁽³⁾	5,616	5,616	1,008	3,618	1,592	—
Commercial paper ⁽³⁾	3,892	3,892	1,655	2,337	—	—
Corporate securities ⁽³⁾	127,075	126,274	159	17,945	110,770	—
Mortgage- and asset-backed securities ⁽³⁾	19,134	19,284	—	21	19,253	—
Subtotal	204,401	208,811	4,731	36,760	164,820	—
Total	313,483	315,893	12,815	36,760	164,820	1,000

(1) Level 1 fair value estimates are based on quoted prices in active markets for identical assets or liabilities.

(2) Level 2 fair value estimates are based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

(3) As of 28 September 2018, total cash, cash equivalents and marketable securities included \$20.5bn (2017: \$3.3bn) that was restricted from general use, related to the State Aid Decision (see Note 5, "Provision for Income Taxes") and other agreements.

The Group's valuation techniques used to measure the fair value of money market funds are derived from quoted prices in active markets for identical assets or liabilities. The valuation techniques used to measure the fair value of the Group's debt instruments and other financial instruments which generally have counter parties with high credit ratings, are valued based on quoted market prices or model-driven valuations using significant inputs derived from or corroborated by observable market data. The Group may sell certain of its marketable debt securities prior to their stated maturities for reasons including, but not limited to, managing liquidity, credit risk, duration and asset allocation. The maturities of the Group's long-term marketable debt securities generally range from one to five years. The non-marketable securities held at FVTPL consist of investments in privately held companies. The fair value of the non-marketable securities were derived from observable transactions for identical or similar assets.

Interest Rate and Foreign Currency Risk Management

The Group regularly reviews its foreign exchange forward and option positions and interest rate swaps, both on a stand-alone basis and in conjunction with its underlying foreign currency and interest rate exposures. Given the effective horizons of the Group's risk management activities and the anticipatory nature of the exposures, there can be no assurance these positions will offset more than a portion of the financial impact resulting from movements in either foreign exchange or interest rates. Further, the recognition of the gains and losses related to these instruments may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Group's financial condition and operating results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments *(continued)*

Interest Rate Risk

The Group's exposure to changes in interest rates relates primarily to the Group's investment portfolio. While the Group is exposed to global interest rate fluctuations, the Group's interest income is most sensitive to fluctuations in U.S. interest rates. Changes in U.S. interest rates affect the interest earned on the Group's cash, cash equivalents and marketable securities and the fair value of those securities, as well as costs associated with hedging.

The Group's investment policy and strategy are focused on preservation of capital and supporting the Group's liquidity requirements. The Group uses a combination of internal and external management to execute its investment strategy and achieve its investment objectives. The Group typically invests in highly-rated securities, with the primary objective of minimizing the potential risk of principal loss. The Group's investment policy generally requires investments to be investment grade and limits the amount of credit exposure to any one issuer. To provide a meaningful assessment of the interest rate risk associated with the Group's investment portfolio, the Group performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on investment positions as of 29 September 2018 and 30 September 2017, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$4.7 billion and \$5.7 billion incremental decline in the fair market value of the portfolio, respectively. Such losses would only be realized if the Group sold the investments prior to maturity.

Foreign Currency Risk

In general, the Group is a net receiver of currencies other than U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar will negatively affect the Group's net sales and gross margins as expressed in U.S. dollars. There is a risk that the Group will have to adjust local currency product pricing due to competitive pressures when there has been significant volatility in foreign currency exchange rates.

The Group may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. In addition, the Group has entered, and in the future may enter into, foreign currency contracts to partially offset the foreign currency exposure associated with revenue and inventory purchases, typically for up to 12 months. However, the Group may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to, accounting considerations or the prohibitive economic cost of hedging particular exposures.

To provide a meaningful assessment of the foreign currency risk associated with certain of the Group's foreign currency derivative positions, the Group performed a sensitivity analysis using a value-at-risk ("VAR") model to assess the potential impact of fluctuations in exchange rates. The VAR model consisted of using a Monte Carlo simulation to generate thousands of random market price paths assuming normal market conditions. The VAR is the maximum expected loss in fair value, for a given confidence interval, to the Group's foreign currency derivative positions due to adverse movements in rates. The VAR model is not intended to represent actual losses but is used as a risk estimation and management tool. Forwarded transactions, firm commitments and assets and liabilities denominated in foreign currencies were excluded from the model. Based on the results of the model, the Group estimates with 95% confidence, a maximum one-day loss in fair value of \$540 million as of 29 September 2018 compared to a maximum one-day loss in fair value of \$482 million as of 30 September 2017. Because the Group uses foreign currency instruments for hedging purposes, the losses in fair value incurred on those instruments are generally offset by increases in the fair value of the underlying exposures.

Actual future gains and losses associated with the Group's investment portfolio and derivative positions may differ materially from the sensitivity analyses performed as of 29 September 2018 due to the inherent limitations associated with predicting the timing and amount of changes in interest rates, foreign currency exchange rates and the Group's actual exposures and positions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments *(continued)*

Price Risk

Future operating results depend upon the Group's ability to obtain components in sufficient quantities on commercially reasonable terms.

Because the Group currently obtains certain components from single or limited sources, the Group is subject to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations that could materially adversely affect the Group's financial condition and operating results. While the Group has entered into agreements for the supply of many components, there can be no assurance that the Group will be able to extend or renew these agreements on similar terms, or at all. Component suppliers may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting the Group's ability to obtain sufficient quantities of components on commercially reasonable terms.

The effects of global or regional economic conditions on the Group's suppliers could affect the Group's ability to obtain components. Therefore, the Group remains subject to significant risks of supply shortages and price increases that could materially adversely affect its financial condition and operating results. The Group's new products often utilize custom components available from only one source. When a component of product uses new technologies, initial capacity constraints may exist until the suppliers yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected for any number of reasons, including if those suppliers decide to concentrate on the production of common components instead of components customised to meet the Group's requirements. If the Group's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Group, the Group's financial condition and operating results could be materially adversely affected. The Group's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source.

Liquidity Risk

The Group believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations over the next 12 months.

In connection with the State Aid Decision, as of 29 September 2016, the entire recovery amount of €13.1 billion plus interest of €1.2 billion was funded into escrow, where it will remain restricted from general use pending conclusion of all appeals.

As of 29 September 2016 and 30 September 2017, the Group's cash, cash equivalents and marketable securities were \$218.8 billion and \$251.2 billion, respectively, and are generally based in U.S. dollar-denominated holdings.

The Group's investment portfolio is primarily invested in highly-rated securities with the primary objective of minimising the potential risk of principal loss. The Group's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer.

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments (continued)

Liquidity Risk (continued)

Maturity of financial liabilities

The following tables below summarise the maturity profile of the Group's financial liabilities for 2018, 2017 and 2016 based on contractual payments:

As of 29 September 2018				
	Carrying Amount	Contractual Amount	Period <1 year	Period 1-5 years
	\$'m	\$'m	\$'m	\$'m
Non-Derivative Financial Instruments:				
Accounts payable	30,669	30,669	30,669	—
Other current liabilities	15,295	15,295	15,295	—
Other non-current liabilities	1,599	1,599	—	1,599
Subtotal	47,563	47,563	45,964	1,599
Derivative Financial Instruments:				
Forward foreign exchange contracts	448	105,191	91,166	14,005
As of 30 September 2017				
	Carrying Amount	Contractual Amount	Period <1 year	Period 1-5 years
	\$'m	\$'m	\$'m	\$'m
Non-Derivative Financial Instruments:				
Accounts payable	24,740	24,740	24,740	—
Other current liabilities	14,951	14,951	14,951	—
Other non-current liabilities	277	277	—	277
Subtotal	39,968	39,968	39,691	277
Derivative Financial Instruments:				
Foreign exchange contracts	654	109,224	109,224	—
As of 25 September 2016				
	Carrying Amount	Contractual Amount	Period <1 year	Period 1-5 years
	\$'m	\$'m	\$'m	\$'m
Non-Derivative Financial Instruments:				
Accounts payable	20,077	20,077	20,077	—
Other current liabilities	10,362	10,362	10,362	—
Other non-current liabilities	222	222	—	222
Subtotal	30,661	30,661	30,439	222
Derivative Financial Instruments:				
Foreign exchange contracts	345	65,968	65,968	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments (continued)

Credit Risk

Credit risk refers to the risk of financial loss to the Group if a counter-party defaults on its contractual obligations on financial assets held in the Consolidated Balance Sheets of the Group. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Balance Sheets of the Group.

Accounts Receivable

The Group is exposed to credit risk on its trade accounts receivable, vendor non-trade receivables and amounts owed by related parties and this risk is heightened during periods when economic conditions worsen.

The Group has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, resellers, small and mid-sized businesses and education, enterprise and government customers. The Group generally does not require collateral from its customers; however, the Group will require collateral or third-party credit support in certain instances to limit credit risk. In addition, when possible, the Group attempts to limit credit risk on trade receivables with credit insurance for certain customers or by requiring third-party financing, loans or leases to support credit exposure. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Group generally does not assume any recourse or credit risk sharing related to any of these arrangements.

The Group has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture sub-assemblies or assemble final products for the Group. The Group purchases these components directly from suppliers.

As of 29 September 2018, a significant portion of the Group's trade receivables was concentrated within cellular network carriers, and its vendor non-trade receivables were concentrated among a few individual vendors located primarily in Asia. While the Group has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables, as well as amounts owed by related parties (see Note 9, "Related Party Transactions"), there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

Accounts receivables are generally receivable within 30 days of the Consolidated Balance Sheet dates and are unsecured and non-interest bearing. The ageing analysis of accounts receivables, stated net of provisions for expected credit losses are as follows:

	Carrying Amount	
	As of 29 September 2018	As of 30 September 2017
	\$'m	\$'m
Neither past due nor impaired	26,942	20,933
Past due but not impaired	65	39
	<u>27,007</u>	<u>20,972</u>

Cash, Cash Equivalents, Marketable and Non-Marketable Securities

The Group is exposed to credit risk and fluctuations in the market values of its investment portfolio. Credit ratings and pricing of the Group's investments can be negatively affected by liquidity, credit deterioration, financial results, market and economic conditions, political risk, sovereign risk, interest rate fluctuations or other factors. As a result, the value and liquidity of the Group's cash, marketable and non-marketable securities may fluctuate substantially. Therefore, although the Group has not realised any significant losses on its cash, marketable and non-marketable securities, future fluctuations in their value could result in significant realised losses and could have a material adverse impact on the Group's financial condition and operating results.

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments (continued)

The following table shows the credit ratings of the Group's cash, marketable and non-marketable securities:

	Carrying Amount	
	As of 29 September 2018	As of 30 September 2017
	\$'m	\$'m
Investment Grade	208,129	237,029
Non-Investment Grade	14,751	15,974
	<u>222,880</u>	<u>253,003</u>

Capital Risk Management

Capital includes ordinary shares and equity attributable to the equity shareholders of the Group. The primary objective of the Group's capital management is to ensure that entities in the Group will be able to trade on a going concern basis. The Group's investment policy and strategy are focused on preservation of capital and supporting the Group's liquidity requirements. The Group uses a combination of internal and external management to execute its investment strategy and achieve its investment objectives.

No changes were made to the objectives, policies or processes for managing capital during the financial years ended 29 September 2018 and 30 September 2017.

	As of 29 September 2018	As of 30 September 2017
	\$'m	\$'m
Cash, cash equivalents and marketable securities ⁽¹⁾	218,764	251,160
Property, plant and equipment	17,021	12,645
Working capital	37,068	48,873
Cash generated by operating activities	51,168	45,850
Cash generated by / (used) in investing activities	17,522	(41,637)
Cash used in financing activities	(68,187)	(1,551)

(1) As of 29 September 2018, total cash, cash equivalents and marketable securities included \$20.3bn (2017: \$3.6bn) that was restricted from general use, related to the State Aid Decision (see Note 5, "Provision for Income Taxes") and other agreements.

During 2018, cash generated by operating activities of \$51.2 billion (2017: \$45.9 billion) was a result of \$40.0 billion (2017: \$37.3 billion) of net income, non-cash adjustments to net income of \$11.0 billion (2017: \$10.6 billion) and an increase in the net change in operating assets and liabilities of \$0.2 billion (2017: a decrease of \$2.3 billion). Cash generated by investing activities of \$17.5 billion during 2018 (2017: cash used \$41.6 billion) consisted primarily of cash generated from the maturity and sale of marketable securities, net of purchases of marketable securities, of \$25.0 billion (2017: cash used \$35.7 billion) and cash used to acquire property, plant and equipment of \$2.9 billion (2017: \$5.5 billion). Cash used in financing activities in 2018 consisted primarily of cash used to pay dividends of \$68.2 billion (2017: \$1.6 billion).

The Group believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations over the next 12 months.

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments (continued)

Derivative Financial Instruments

The following tables show the Group's derivative instruments at gross fair value as of 29 September 2018, 30 September 2017 and 25 September 2016:

As of 29 September 2018			
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
	\$'m	\$'m	\$'m
Derivative assets ⁽¹⁾ :			
Foreign exchange contracts	327	287	614
Derivative liabilities ⁽²⁾ :			
Foreign exchange contracts	165	293	448
As of 30 September 2017			
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
	\$'m	\$'m	\$'m
Derivative assets ⁽¹⁾ :			
Foreign exchange contracts	441	357	798
Derivative liabilities ⁽²⁾ :			
Foreign exchange contracts	359	495	854
As of 25 September 2016			
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
	\$'m	\$'m	\$'m
Derivative assets ⁽¹⁾ :			
Foreign exchange contracts	379	191	570
Derivative liabilities ⁽²⁾ :			
Foreign exchange contracts	217	128	345

(1) The fair value of derivative assets is measured using Level 2 fair value inputs and is recorded as other current assets in the Consolidated Balance Sheets.

(2) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as other current liabilities in the Consolidated Balance Sheets.

The Group may use derivatives to partially offset its business exposure to foreign currency and interest rate risk on expected future cash flows, on net investments in certain foreign subsidiaries and on certain existing assets and liabilities. However, the Group may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments *(continued)*

Derivative Financial Instruments *(continued)*

To protect gross margins from fluctuations in foreign currency exchange rates, certain of the Group's subsidiaries whose functional currency is the U.S. dollar may hedge a portion of forecasted foreign currency revenue, and subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries' functional currencies. The Group may enter into forward contracts, option contracts or other instruments to manage this risk and may designate these instruments as cash flow hedges. The Group generally hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases, typically for up to 12 months.

To protect the net investment in a foreign operation from fluctuations in foreign currency exchange rates, the Group may enter into foreign currency forward and option contracts to offset a portion of the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates. The Group designates these instruments as net investment hedges.

To protect the Group's foreign currency marketable securities from fluctuations in foreign currency exchange rates, the Group may enter into forward contracts or other instruments. These instruments may offset a portion of the foreign currency remeasurement gains or losses, or changes in fair value. The Group may designate these instruments as cash flow hedges.

The Group may also enter into non-designated foreign currency contracts to offset a portion of the foreign currency exchange gains and losses generated by the remeasurement of certain assets and liabilities denominated in non-functional currencies.

To protect the Group's foreign currency-denominated marketable securities from fluctuations in interest rates, the Group may enter into interest rate swaps, options or other instruments. These instruments may offset a portion of the changes in interest income or changes in fair value.

Cash Flow Hedges

The effective portions of cash flow hedges are recorded in OCI until the hedged item is recognised in earnings. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognised as a component of net sales in the same period as the related revenue is recognised, and deferred gains and losses related to cash flow hedges of inventory purchases are recognised as a component of cost of sales in the same period as the related costs are recognised. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognised in other income/(expense), net in the same period as the related income or expense is recognised. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness. The ineffective portions and amounts excluded from the effectiveness testing of cash flow hedges are recognised in other income/(expense), net.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur. Deferred gains and losses in OCI associated with such derivative instruments are reclassified into other income/(expense), net in the period of de-designation. Any subsequent changes in fair value of such derivative instruments are reflected in other income/(expense), net unless they are re-designated as hedges of other transactions.

Non-Designated Derivatives

Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates. As a result, during 2018, the Group recognised a gain of \$26 million (2017: \$20 million) in net sales, a gain of \$175 million (2017: a loss of \$26 million) in cost of sales and a loss of \$225 million (2017: a gain of \$600 million) in other income/(expense).

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Financial Risk Management and Financial Instruments (continued)

Financial Instruments (continued)

The following table shows the pre-tax gains and losses of the Group's derivative and non-derivative instruments designated as cash flow hedges in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Operations for 2018 and 2017:

	Years ended	
	29 September 2018	30 September 2017
	\$'m	\$'m
Gain/(Losses) recognised in OCI – effective portion:		
Cash flow hedges:		
Foreign exchange contracts	457	1,040
Gain/(Losses) reclassified from OCI into net income – effective portion:		
Cash flow hedges:		
Foreign exchange contracts	(213)	1,312

The following table shows the notional amounts of the Group's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of 29 September 2018 and 30 September 2017:

	As of 29 September 2018		As of 30 September 2017	
	Notional Amount	Credit Risk Amount	Notional Amount	Credit Risk Amount
	\$'m	\$'m	\$'m	\$'m
Instruments designated as accounting hedges:				
Foreign exchange contracts	22,506	327	40,944	441
Instruments not designated as accounting hedges:				
Foreign exchange contracts	62,682	287	68,290	357

The notional amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of the Group's exposure to credit or market loss. The credit risk amounts represent the Group's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counter parties failed to perform according to the terms of the contract, based on then-current currency or interest rates at each respective date. The Group's exposure to credit loss and market risk will vary over time as currency and interest rates change. Although the table above reflects the notional and credit risk amounts of the Group's derivative instruments, it does not reflect the gains or losses associated with the exposures and transactions that the instruments are intended to hedge. The amounts ultimately realised upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Property, Plant and Equipment, net

	Buildings	Leasehold Improvements	Machinery & Equipment	Total
	\$'m	\$'m	\$'m	\$'m
Cost:				
As of 25 September 2016	522	2,782	27,857	30,961
Additions	236	452	7,172	7,860
Disposals	(10)	(81)	(296)	(387)
As of 30 September 2017	748	3,153	34,533	38,434
Additions	454	277	8,456	10,187
Disposals	(11)	(225)	(807)	(943)
As of 29 September 2018	1,201	3,201	43,382	47,784
Depreciation:				
As of 25 September 2016	71	1,069	19,384	20,524
Charge for the year	16	314	5,081	5,411
Disposals	(6)	(87)	(275)	(348)
As of 30 September 2017	83	1,316	24,190	25,589
Charge for the year	30	324	5,579	5,933
Disposals	(6)	(178)	(578)	(762)
As of 29 September 2018	108	1,464	29,191	30,763
Net book value:				
As of 29 September 2018	1,093	1,737	14,191	17,021
As of 30 September 2017	665	1,837	19,343	22,845
As of 25 September 2016	451	1,713	8,273	10,437

Note 8 – Provisions

The following table shows changes in the Group's accrued warranties and related costs for 2018:

	2018
	\$'m
Beginning accrued warranty and related costs	3,722
Costs of warranty claims	(3,478)
Accruals for product and phone warranty	3,271
Ending accrued warranty and related costs	2,515

The Group offers a limited parts and labour warranty on its hardware products. The basic warranty period is typically one year from the date of purchase by the original end user. The Group also offers a 90-day limited warranty on the service parts used to repair the Group's hardware products. In certain jurisdictions, local law requires that manufacturers guarantee their products for a period prescribed by statute, typically at least two years. In addition, where available, consumers may purchase AppleCare+, which extends service coverage on many of the Group's hardware products.

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Related Party Transactions

The principal related party relationships requiring disclosure in the consolidated financial statements of the Group under IAS 24 Related Party Disclosures ("IAS 24") pertain to the existence of subsidiaries and transactions with related parties entered into by the Group.

Subsidiaries and transactions with related parties

A listing of the subsidiaries is provided in Note 2, "Investment in Subsidiaries" of the Company's financial statements. Sales to and purchases from, together with outstanding payables and receivables to and from subsidiaries, are eliminated in the preparation of the consolidated financial statements of the Group in accordance with IFRS 10, Consolidated Financial Statements ("IFRS 10"). The Group enters into transactions with Apple related parties that are not eliminated in the preparation of the consolidated financial statements of the Group.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are on terms equivalent to those that prevail in arm's length transactions. The outstanding balances included in accounts receivables, net and accounts payable at the Consolidated Balance Sheet dates are interest or non interest bearing, unsecured and repayable on demand or within 40-90 day terms.

The following tables summarizes the transactions and outstanding balances with related parties:

		2018					
		Sales to Related Parties	Purchases from Related Parties	Amounts owed from Related Parties	Amounts owed to Related Parties	Loans owed from Related Parties	Loans owed to Related Parties
		\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Ultimate Parent		124	(14,874)	1,840	(5,845)	—	—
Other Apple related parties		2,237	(976)	570	(2,795)	35	(690)
		<u>2,361</u>	<u>(15,850)</u>	<u>2,410</u>	<u>(8,640)</u>	<u>35</u>	<u>(690)</u>
		2017					
		Sales to Related Parties	Purchases from Related Parties	Amounts owed from Related Parties	Amounts owed to Related Parties	Loans owed from Related Parties	Loans owed to Related Parties
		\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Ultimate Parent		257	(9,616)	604	(2,601)	—	—
Other Apple related parties		2,837	(1,109)	338	(2,559)	—	—
		<u>3,094</u>	<u>(10,725)</u>	<u>942</u>	<u>(5,160)</u>	<u>—</u>	<u>—</u>

Apple Operations International Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Commitments and Contingencies

The Group leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Group does not currently utilise any other off-balance sheet financing arrangements. As of 29 September 2018, the Group's total future minimum lease payments under noncancelable operating leases were \$4.3 billion (2017: \$4.2 billion). The Group's retail store and other facility leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options.

The following table shows the future minimum rental payments under noncancelable operating leases as of 29 September 2018 and 30 September 2017:

	As of 29 September 2018	As of 30 September 2017
	\$'m	\$'m
Within one year	528	574
Later than one year but not later than five years	2,071	1,909
Later than five years	1,618	1,681
	<u>4,317</u>	<u>4,164</u>

The following table show the expenditure contracted for but not recognised as liabilities as of 29 September 2018 and 30 September 2017:

	As of 29 September 2018	As of 30 September 2017
	\$'m	\$'m
Unconditional Purchase Obligations	<u>1,062</u>	<u>1,816</u>

Note 11 - Approval of Financial Statements

The Group financial statements were approved and authorised for issue by the board of directors on 25 April 2019.

Apple Operations International Limited

Company Financial Statements

Year Ended 29 September 2018

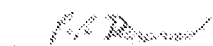
Apple Operations International Limited

COMPANY STATEMENTS OF FINANCIAL POSITION

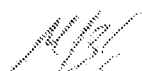
	Note	As of 29 September 2018 \$'m	As of 30 September 2017 \$'m
Fixed assets			
Investment in subsidiaries	2	64,652	64,648
Current assets			
Cash at bank and in hand		641	3,289
Debtors: amounts falling due within one year		104	—
Investments	3	185,565	230,657
		186,310	233,946
Creditors: amounts falling due within one year	4	(12,357)	(6,033)
Net current assets		173,953	227,913
Net assets		238,605	292,561
Capital and reserves			
Called up share capital presented as equity	5	1	1
Prior year retained earnings		292,560	256,306
Dividends paid		(68,009)	(1,500)
Profit for the financial year		14,044	37,754
		238,604	292,560
Total shareholders' equity		238,605	292,561

See accompanying notes to Company financial statements.

On behalf of the board


Peter Denwood
Director

Date: April 25, 2019


Michael Joseph Boyd Jr.
Director

Date: April 25, 2019

Apple Operations International Limited

COMPANY STATEMENTS OF CHANGES IN EQUITY

	Called up share capital presented as equity	Profit and Loss account	Total Shareholders' Equity
	\$'m	\$'m	\$'m
Balances as of 24 September 2016	1	256,306	256,307
Profit for the financial year	---	37,754	37,754
Total comprehensive income for the year	---	37,754	37,754
Dividends paid	---	(1,500)	(1,500)
Balances as of 30 September 2017	1	292,560	292,561
Profit for the financial year	---	14,044	14,044
Total comprehensive income for the year	---	14,044	14,044
Dividends paid	---	(68,000)	(68,000)
Balances as of 29 September 2018	1	238,604	238,605

See accompanying notes to Company financial statements.

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

The applicable accounting policies for Apple Operations International Limited, the ("Company") have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Statement of Compliance

Apple Operations International Limited was an unlimited liability company for the financial year ended 29 September 2018. On 19 November 2018, the Company re-registered as a private company limited by shares, pursuant to the Companies Act 2014. The Company is incorporated in Ireland with a registration number of 76941. The registered office is Hollyhill Industrial Estate, Hollyhill, Co. Cork, Ireland.

The Company financial statements are prepared in accordance with FRS 102.

Basis of Preparation

The financial statements are presented in U.S. dollars ("\$"), which is the Company's presentational and functional currency and the level of rounding is to the nearest million (unless otherwise stated). Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The resulting monetary assets and liabilities are translated at the balance sheet rate and the exchange differences are dealt with in the Statements of Comprehensive Income. The financial statements have been prepared under the historical cost convention except where assets and liabilities are stated at fair value in accordance with relevant accounting policies.

The Company has availed of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- Section 4 Statement of Financial Position paragraph 4.12(e)(iv)
- Section 3 Financial Statement Presentation paragraph 3.17(d)
- Section 7 Statement of Cash Flows
- Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(ii), 11.48(a)(iv), 11.48(b) and 11.48(c)
- Section 12 Other Financial Instruments Issues paragraphs 12.26, 12.27, 12.29 (a), 12.29 (b) and 12.29 A
- Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23
- Section 33 Related Party Disclosures paragraph 33.7

In accordance with Section 304 of the Companies Act 2014, the Company is availing of the exemption from the requirement to present its individual Statements of Comprehensive Income, which forms part of the approved financial statements, to the Company's shareholders at a general meeting and the requirement to file the Statements of Comprehensive Income with the the Registrar of Companies.

The Company's ultimate and immediate parent is Apple Inc., a company incorporated in California, United States of America, the consolidated financial statements of which are publicly available from Investor Relations, Apple Inc., One Apple Park Way, Cupertino, California 95014, United States of America.

Going concern

The financial statements have been prepared on a going concern basis. The directors are satisfied that adequate resources are available to the Company and they have no reason to believe that any material uncertainty exists that would cast a doubt about the ability of the Company to continue as a going concern for at least twelve months from date of approval of the financial statements.

Judgements and key sources of estimation uncertainty

Management makes estimates and assumptions concerning the future in the preparation of the Company financial statements, which can significantly impact the reported amounts of assets and liabilities. The significant estimates and assumptions used in the preparation of the Company financial statements are outlined in the relevant notes.

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Fixed assets

Investments in subsidiaries

Investments in subsidiaries are shown at cost less provision for impairment in value.

Financial instruments

Basic financial instruments

Debtors / Creditors:

Debtors are recognised initially at transaction price less attributable transaction costs. Creditors are recognised initially at transaction price plus attributable transaction costs. Any losses arising from impairment are recognised in operating expenses.

Cash at bank and in hand:

Cash at bank and in hand comprise cash balances, call deposits and deposits with original maturity of three months or less.

Investments considered to be basic financial instruments:

Basic investments are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition, basic investments are measured at amortised cost using the effective interest method, less any impairment losses.

Other financial instruments

Investments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition, the investments are measured at fair value with changes recognised in the Statements of Comprehensive Income.

Note 2 – Investment in Subsidiaries

	Total
	\$'m
As of 24 September 2016	50,604
Contributions during the year	14,044
As of 30 September 2017	64,648
Contributions during the year	18
Disposals during year	(14)
As of 29 September 2018	64,652

During the prior year, the Company made a capital contribution of \$14.9 billion to a subsidiary, Apple Operations. The Company subsequently contributed Apple Operations to Apple Operations Europe.

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 2 – Investment in Subsidiaries (continued)

Name of company	Registered office	Nature of business
Akane LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Holding company
Apple Asia Limited	Suites 2401-2412, Tower One, Times Square, Causeway Bay, Hong Kong	Sales, distribution and related services
Apple Asia LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Sales, distribution and related services
Apple Computer Trading (Shanghai) Co. Ltd. **	Building 6, 88 Maji Road (District C), China (Shanghai) Pilot Free Trade Zone	Sales, distribution and related services
Apple South Asia Pte. Ltd.	7 Ang Mo Kio Street 64, 569086, Singapore	Sales, distribution and related services
Apple Electronics Products Commerce (Beijing) Company Limited **	Units 2, 4, 5, 6 on Level 20, Office Tower E1, The Towers, Oriental Plaza, East Chang An Avenue, Dong Cheng District, Beijing100738, China	Sales, distribution and related services
Apple India Private Limited *	19 th Floor, Concorde Tower C, UB City No. 24, Vittal Mallya Road, Bangalore, Karnataka 550001, India	Sales, distribution, manufacturing and related services
Apple Japan, Inc.	Roppongi Hills, 8-10-1 Roppongi, Minato-ku, Tokyo 106-6140, Japan	Sales, distribution and related services
Apple Korea Limited	3901 ASEM Tower 159, Samsung-dong Gangnam-gu Seoul, 125-090, Republic of Korea	Sales, distribution and related services
Apple M E FZCO	Business Centre World FZE N, 125, JAFZA View 18 & 19, 1 st Floor P.O. Box 262746 Jebel Ali Free Zone, Dubai, UAE	Sales, distribution and related services
Apple Malaysia Sdn. Bhd.	Level 21, Suite 2101, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	Sales, distribution and related services
Apple Operations	Hollyhill Industrial Estate, Hollyhill, Cork, Ireland	Procurement, sales and manufacturing support services
Apple Operations Europe ***	Hollyhill Industrial Estate, Hollyhill, Cork, Ireland	Procurement, manufacturing and distribution
Apple GmbH	Arnulfstrasse 19, 80335 Munich Germany	Sales support, marketing and related services

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 2 – Investment in Subsidiaries (continued)

Name of company	Registered office	Nature of business
Apple Pty Limited	Levels 2-8, 20 Martin Place, Sydney NSW 2000, Australia	Sales, distribution and related services
Apple Retail Europe UC	Hollyhill Industrial Estate, Hollyhill, Cork, Co. Cork, Ireland	Holding company and retail business
Apple Sales International	Hollyhill Industrial Estate, Hollyhill, Co. Cork, Ireland	Holding company
Apple Sales Ireland	Hollyhill Industrial Estate, Hollyhill, Cork, Ireland	Sales support, marketing, related services and holding company
Apple Trading (Shanghai) Company Limited**	Units 610-13 on partial Floor 6, HSBC Building (i.e. Tower A), Shanghai IIC, 8 Century Avenue, Pudong New Area, Shanghai, China	Sales, distribution and related services
Apple Benelux B.V.	Leidseplein 29 Third Floor 1017 PS Amsterdam The Netherlands	Sales support, marketing and related services
Apple Distribution International	Hollyhill Industrial Estate, Hollyhill, Cork, Ireland	Sales, distribution and related services
Apple Holding B.V.	Leidseplein 29 Third Floor 1017 PS, Amsterdam, The Netherlands	Holding company
Apple Retail UK Limited	6 St Andrew Street, 5th Floor, London, EC4A 3AE, United Kingdom	Retail company
Apple Retail France E.U.R.L.	52 rue de la Victoire, 75009 Paris, France	Retail company
Apple Retail Italia S.R.L.	Foro Buonaparte 70, 20121 Milan, Italy	Retail company
Apple Retail Germany B.V. & Co. KG	Thurn-und-Taxis Platz 6 60316 Frankfurt am Main, Germany	Retail business
Apple Retail Spain S.L.U.	Calle Principe de Vergara 131, planta 1, 28002, Madrid Spain	Retail company
Apple Retail Switzerland GmbH	c/o TMF Services SA, Gessnerallee 38 8001, Zurich Switzerland	Retail company
Apple Retail Belgium BVBA	Havenlaan 86C, Box 204 Avenue du Port, B-1000 Brussels, Belgium	Retail company
Apple Retail Netherlands B.V.	Luna Arena Herikerbergweg 238, 1101 CA, Amsterdam, The Netherlands	Retail company

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 2 – Investment in Subsidiaries (continued)

Name of company	Registered office	Nature of business
Apple Retail Sweden AB	c/o TMF Sweden AB, Sergels Torg 12, 11157 Stockholm, Sweden	Retail company
Limited Liability Company Apple Rus. **	blvd. 2/4 Romanov Lane 6th floor premises II, room 84 125008, Moscow, Russian Federation	Sales, distribution and related services
Apple Israel Limited	12 Maskit Street, POB 12147, Herzliya Pituach, 4673312, Israel	Sales support, marketing, related services, research and development
PT Apple Indonesia	Gd. World Trade, Center 2, Lt. 18, Jl. Jend. Sudirman, Kav. 29-31, Kel. Karet, Kec. Setiabudi, Jakarta, Selatan, 12920 Indonesia	Sales, distribution and related services
Apple Technical Services (Shanghai) Company Limited **	Unit 1702 (nominal level, actual level Unit 1502), No. 1249 Century Avenue, China (Shanghai) Pilot Free Trade Zone, China	Technical services and other support services
Beats Holding One GP **	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	General partnership
Beats Holding One LLC **	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Holding company
Beats Holding Two LLC **	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Holding company
Beats Electronics International **	Hollyhill Industrial Estate, Hollyhill, Cork, Ireland	Inactive
Beats Electronics Hong Kong Limited **	1401 Hutchison House, 10 Harcourt Road Hong Kong	Inactive
Beats Trading (Shanghai) Co., Ltd. **	Room 1620, 18/F Oriental Centre, No. 696 West Nanjing Road, Shanghai, 200041, China	Inactive
Beats Electronics Technology Consultancy (Shenzhen) Limited **	Room 2601, 26F Allianz Tower, 4018 Jintian Road, Lianhua Street, Futian District, Shenzhen, China	Inactive
Apple Data Services Ireland	Hollyhill Industrial Estate, Hollyhill, Cork, Ireland	Holding company
Apple ApS	Silkeborgsvej 8, 1st Floor, DK-1113, Copenhagen, Denmark	Construction and operation of data centre
Apple Macau Limitada **	Avenida da Praia Grande, No. 769, 5/Floor Macau	Sales, distribution and related services

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 2 – Investment in Subsidiaries (continued)

Name of company	Registered office	Nature of business
Apple Teknoloji ve Satış Limited Şirketi	Büyükdere Caddesi, No:199, Levent 199. Kat: 22 ve 23, Şişli, Mecidiyeköy, İstanbul, 34394, Turkey	Sales, distribution and related services
Bramley GP	Corporation Trust Center, 1209 Orange Street, Wilmington DE, 19801 United States	Holding of partnership interests
Bramley LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801 United States	Holding company
Sju Sekel AB	c/o TMF Sweden AB, Sergels Torg 12, 11157 Stockholm, Sweden	Holding company
Apple Sales New Zealand	c/o Simpson Grierson, Level 27, 86 Shortland Street, Auckland Central, Auckland, 1010, New Zealand	Sales, distribution and related services
Beats Electronics Japan GK **	Roppongi Hills 6-10-1 Roppongi Tokyo, 106-6140, Japan	Inactive
Apple Europe Limited	100 New Bridge Street, London, EC4V 6JA, United Kingdom	Sales support, marketing and related services
Apple Equipment Holding LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Inactive
Apple Equipment Holding Two LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Inactive
Apple Equipment Services UC	Hollyhill Industrial Estate, Hollyhill, Cork, Ireland	Inactive
Grouch Capital LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801 United States	Holding company
Aeben Properties LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Holding company
Apple Vietnam Limited Liability Company	Unit 901, Deutsches Haus Ho Chi Minh City, No.33, Le Duan Bld., Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam	Sales, distribution and related services
Apple Equipment Holding GP	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Holding company
Apple Technology Services (Guizhou) Ltd **	No.99, Baima Road, The Administrative Center of Gui'an New District, Guizhou, China	Technical services and other support services
Apple (UK) Limited	100 New Bridge Street, London EC4V 6JA, United Kingdom	Research and development, technical and other services
Apple Lithuania UAB	Jogailos g. 9 Vilnius, 01116, Lithuania	Sales support, marketing and related services

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 2 – Investment in Subsidiaries (continued)

Name of company	Registered office	Nature of business
Apple Sales & Marketing Nigeria Ltd	St. Nicholas House (10th Floor) Catholic Mission Street Lagos Nigeria	Inactive
Apple Sales Romania S.R.L.	201 Barbu Vacarescu St. Floors 17-19, Sector 2 Bucharest 020276 Romania	Inactive
Apple Technology Services (Ulanqab) Ltd. **	Room 413, Building B, Business Scientific Culture Center Jining New Area Ulanqab, China	Technical services and other support services
Apple Technology Services B.V. & Co KG	Hackerbrücke 8, 80335 Munich Bavaria-Bayern Germany	Research and development services
Apple Saudi Arabia LLC	Level 30, Faisaliyah Tower King Fahed Highway, Olayah District P.O Box 54995 Riyadh	Sales, distribution and related services
Shazam Media Services (Australia) Pty Ltd. ***	Suite 306, 100 Walker Street North Sydney NSW 2060 Australia	Inactive
Shazam Media Services GmbH **	Münzstrabe 19 10118 Berlin Germany	Inactive
Shazam Entertainment Limited **	26-28, Hammersmith Grove London W6 7HA United Kingdom	Sales, distribution, related services and holding company
Shazam Investments Limited **	26-28, Hammersmith Grove London W6 7HA United Kingdom	Inactive
Shazam Entertainment Trustees Limited **	26-28, Hammersmith Grove London W6 7HA United Kingdom	Holding company
Shazam Media Services, Inc. **	2711 Centerville Road Suite 400 Wilmington DE 19806 United States	Sales, support, marketing and related services
Atlas Capital LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Holding company

Certain subsidiaries have a different financial year-end as outlined below. This arises where required or permitted by local laws and/or regulations.

* Financial statements of the named subsidiaries are prepared to 31 March 2018.

** Financial statements of the named subsidiaries are prepared to 30/31 December 2018.

All Group entities listed above are, directly or indirectly, wholly owned subsidiaries of the Company. Except where indicated, the class of shares held by the Company, directly or indirectly, are ordinary voting shares or an equivalent type of voting equity interest provided for under the laws of their jurisdiction of formation/incorporation.

***The Company also holds two deferred ordinary shares.

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 3 – Investments

	As of 29 September 2018	As of 30 September 2017
	\$'m	\$'m
Investments measured at fair value through profit or loss	17,490	21,544
Investments measured at amortised cost	168,075	209,113
	<u>185,565</u>	<u>230,657</u>

The Company has investments in quoted debt securities, which are held at amortised cost. The fair value of these investments as of 29 September 2018 was \$164.9 billion (2017: \$209.8 billion). The fair value of assets held at fair value through the profit or loss as of 29 September 2018 and 30 September 2017 were determined using quoted prices.

Note 4 – Creditors: amounts falling due within one year

	As of 29 September 2018	As of 30 September 2017
	\$'m	\$'m
Amounts owed to Ultimate Parent	62	87
Amounts owed to other Apple related parties	12,258	5,978
Other current liabilities	99	—
	<u>12,357</u>	<u>6,063</u>

The amounts owed to the Ultimate Parent and other Apple related parties are non-interest bearing and are repayable on demand.

Note 5 – Called up share capital presented as equity

	As of 29 September 2018	As of 30 September 2017
	\$	\$
Authorised:		
1,000 deferred ordinary shares of €1,269,738 each	1,500	1,500
727,000 ordinary shares of \$1 each	727,000	727,000
	<u>728,500</u>	<u>728,500</u>
	As of 29 September 2018	As of 30 September 2017
	\$	\$
Allocated, called up and fully paid:		
700,052 (2017: 700,052) ordinary shares of \$1 each	700,052	700,052
2 deferred ordinary shares of €1,269,738 each	7	7
	<u>700,059</u>	<u>700,059</u>

Apple Operations International Limited

NOTES TO COMPANY FINANCIAL STATEMENTS

Note 5 – Called up share capital presented as equity (continued)

Rights attaching to the ordinary shares and deferred ordinary shares

The ordinary shares carry the right to:

- (a) receive notice of, attend, speak or vote at any general meeting of the Company. Where a matter is being decided on a show of hands, every member present in person and every proxy shall have one vote and on a poll, every member shall have one vote for every share held or for each €15 of stock held;
- (b) participate in the dividends (if any) declared on that class of share; and
- (c) in the winding up of the Company, repayment of capital paid upon such shares and the right to participate in the division of any surplus assets or profits of the Company.

So long as there are ordinary shares in issue the holders of the deferred ordinary shares shall not be entitled to:

- (a) receive notice of, attend, speak or vote at any general meeting of the Company;
- (b) receive any dividend, unless it shall have been resolved to the contrary at any general meeting of the Company; or
- (c) receive on a winding up of the Company any payment other than an amount equal to the capital paid up or credited as paid up for the time being on the deferred ordinary shares, after payment of the capital paid up or credited as paid up for the time being on the ordinary shares.

Note 6 – Related party transactions

The Company undertakes transactions with related parties. Disclosure of such transactions is not required under Section 33 Related party disclosures paragraph 33.1A of FRS102.

Note 7 – Post Balance Sheet Events

The Company declared and paid a dividend of \$61.8 billion subsequent to the financial year end.

Note 8 – Approval of Financial Statements

The Company financial statements were approved and authorised for issue by the board of directors on 25 April 2019.